

Economic Crime and Money Laundering connected with privatization in Borjomi region

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Privatization of State property is a strategic direction of the country and it represents a source of republican and local importance for filling countries budget.

Information gathered for the research referred the privatization process in Borjomi region. Generally, information sources are represented as official materials taken from the State Property Privatization and Register department of Borjomi region of the Ministry of Economic Development of Georgia, also information provided by the employees of this department (non-official source).

Analyses are based on the obtained information. Final results reveal major reasons of economic crime and laundering black money in Borjomi region.

The history of privatization process in Borjomi: Borjomi was a resort of republican, as well as of international importance. It was a popular center for preparing various sport teams in post Soviet Union, according to this a lot of property, subordinating different departments were presented in Borjomi region, and their privatization process is implemented gradually and it is not completed even for the present time. Special boom in privatization process was from 1996 till 2001 (before revolution) and in a period after revolution, especially recent years. Major, solid departments were privatized in the mentioned period. And our attention was drawn to some of them:

Before Rose revolution (1996-2001)

- a) Central Department Store in Borjomi;
- b) Former building of editorial office;
- g) Rest home “Tbilisi”;
- d) New training-educational center;
- e) Rope ways “Mitarbi” – 1; Kokhta – 1;
- f) New training-educational center;

Since Rose Revolution (2003 – till the present time)

- a) LTD. “Auto Service” – “Borjomi”
- b) Rest Home “Didveli” located in small town “Bakuriani”.

Special attention should be devoted to the fact, that privatization process of 1996-2001 was actively participated by the former head of the Borjomi region and other authorities.

1) **Central Department Store.**

Central Department Store of Borjomi is located in the centre of Borjomi, on the Rustaveli square, it is a three storey building (known as a “Three storey house of Borjomi”). Sixth item, of article two of paragraph second of Georgian law “On State Property Privatization”; accordingly, announcement about privatization of the object was published in the local newspaper “Borjomi”, which generally was financed from the local budget. Its general director – Valerian Lomidze is in close relations with the head of Borjomi. During privatization process of the object, attention should be delivered to the price of the object 54 350 USD and to the rule of covering it. According to legislation of that time, based on the rules of the auction, final price of the object should have been covered within 30 calendar days. But, there was one nuance: according to the second item of the resolution №45.08.947 adopted by the Board of State Property on October 02, 1995: “Within three days, since signing the results of the auction, buyer should cover 50% and not more than 65% of selling price of the object in national currency, and the left sum should be covered with the privatization notes only”. This rule was in force till the June, 1996. According to the resolution adopted by the cabinet in 1995, May 20, state price for one voucher (privatization card) was 30 USD, and its market price was under 5-7 GEL. Final price of Borjomi Central Department Store was covered exactly under this rule and 50% of 54 340 USD was covered with the vouchers. Such facts had never occurred for covering selling price of other objects during the voucher activation period and this reasons had become a base for corruption dealing between the head of the department and the buyers for many times.

Thus, rather legally, which afterwards became the reason of one more corruption dealing, buyer had paid 50% of the 54 350 USD, in other words 27200 USD and 17 150 USD in voucher (905 voucher). They had bought one voucher for 7 GEL, $905 \times 7 = 6335$, total 27 200 USD and 6335 GEL.

During state property privatization process, the head of privatization department had used rather logical ways for estimating corruption dealings: inaccuracies in various resolutions and laws about privatization, which were used in the privatization processes of these objects – even not a single buyer had covered 50% of the final price with the privatization cards.

2) **Building of the former editorial office**

Like in the first case, the personality of the buyer is interesting even here. Special attention should be drawn to V. Lominadze, who was the chief editor of the newspaper “Borjomi”. The building of the editorial office was put in the list of privatization objects under his initiative and

his newspaper was publishing all announcements about privatization. The mentioned newspaper and its editor appear in other episodes as well. Also:

Revaz Kurtanidze, is a brother-in-law of Gela Gambashidze, the head of State Property Management Borjomi department.

David Svianadze – close relative of Vaja Beridze, the head of Borjomi region.

As we can see, we face an obvious trace of corruption dealing between buyers and the persons standing behind them. Thus, it is not a surprising fact, that the selling price of the object 12 900 USD is very low compared with its real price. Also, the form of privatization; It does not coincide with sixth item of paragraph two of the privatization law and it is selected by the head of the department.

3) Rest home “Tbilisi”

The object is a 7 storey building located on the right side of the river Mtkvari.

Personality of buyers is also interesting. Here, we come across with the surname of Ruizan Kurtanidze, wife of the head of privatization department, Gela Gambashidze. According to this, it is clear who stands behind them. Special interest recalls personalities of K. Nozadze and Goginashvili. Ketevan Nozadze is the head of the Children’s Federation of Borjomi department, and Goginashvili is the cousin of the head of Children’s Federation Koba Gilashvili. The history of the hotel “Tbilisi” does not end only with the privatization process. Buyer had not met the responsibilities of privatization properly and privatization agreement was abrogated. Despite fining or in case refusing to pay the fine abrogating the agreement, privatization office had legalized 51% of the hotel “Tbilisi” to the buyers, and had declared the left 49% for privatization. Ketevan Nozadze again bought it (head of Borjomi Children’s Federation). In this case, the price of 49% of the hotel “Tbilisi” is interesting. 100% price of the hotel “Tbilisi” was 160 500 USD. And, 49% of it was 78645 USD. But, 49% of the hotel “Tbilisi” was sold for 57 000 USD! All this clarify the fact that the head of Borjomi department of State Property Management of those time was in criminal dealings with the buyers of the hotel “Tbilisi”. One of the buyers was his wife, so it is not a surprising fact!

According to item 2, of article 10, paragraph 2 of the law “On the corruption and incompatibility of interests in civil service”: “An authority has no right to have property dealing with close relatives or with their representatives”. Based on this, we face a serious violation of law”.

4) Rope-ways: Mitarbi 1, Mitarbi 2, Kokhta -1

Buyer – Elguja Ordjonikidze. Sum: “Mitarbi” – 1” 378 USD,

Mitarbi _2“ - 2237 USD

„Kokhta –1“ -5590 USD

Due to the fact, that its privatization was based on the item 8, article 7 second, paragraph 2 of the law on privatization, prices of rope-ways are rather low. And since making changes in the law on State Property Privatization, second item of the law №1409 of May 14, 2002 and according to the president's decree, it is possible to announce the object for privatization for several times, and if even this time it is not sold, it is possible to sell it with the half diminished price or even with the break even price.

Primarily, privatization prices for the rope-ways "Mitarbi-1", "Mitarbi-2" and "Kokhta-1" were 3482 USD, 22370 USD and 55 900 USD. Announcement for selling the object was published in the press several times and after announcement its price for half diminished. After diminishing its price privatization announcement was published again. This time again, after diminishing its price it was not sold and the interesting history of these objects begins here: Announcement about selling the object directly with an initial break even price was posted in the March number of the newspaper "Borjomi". Based on this information buyer Elgudja Orjonikidze buys rope-ways. What about the initial selling price with 75% sales. The number of newspaper "Borjomi" including this information was presented in the State Property Management Borjomi department later, with the date of December. It may sound surprising, but it was identical to the March number. So identical that, the necrologies from March number were published in the December number. Since legal officials were interested with the newspaper, it appeared that December number of the newspaper "Borjomi" was published with different articles and with the different number and the number found in the department was simply a false one. Please note, that the editor of the newspaper "Borjomi" was Valiko Lominadze and the head of privatization office was Gela Gambashidze.

Attention should be devoted to the fact, that almost all privatization announcements are published in the newspaper "Borjomi".

5) New training-educational center

The object is a 5 storey building and it is located in small town Bakuriani. Participant of the privatization process and the buyer of the mentioned object is Nino Akhvlediani-Hulski. Mrs. Nino is a daughter of the late chief architect of Tbilisi. It is well-known fact, that David Akhvlediani is a close relative of the former president of Georgia, Eduard Shevardnadze. Rope-way "Tatrapoma" was on the balance of the new training center and therefore the interest of Akhvledianis' with this object is coherent. Based on the information, provided by the employees of State Property Management Borjomi department, major deputy of the Borjomi region Nodar Grigalashvili tried to prevent the privatization process of this object, but for 20 000 USD he had

left it. We should mention, that according to paragraph 2, article 7, item 10 of the privatization law of new training center, its price was half diminished.

This was about the period before Rose Revolution, but now

Since the period after Rose Revolution:

1) LTD “Auto service – Borjomi”

The object is located at the entrance of the town Borjomi. Privatization of the LTD. “Auto Service-Borjomi” was completed under the sales of 75%. Privatization announcement of the object was published in the press 4 times. The buyer is Giorgi Korganashvili, closest friend of the head State Property Privatization and Registration department of Borjomi region David Gogichaishvili and trading agreement of LTD “Auto Service – Borjomi” was registered officially on him. In several months after privatization, the head of the department David Gogichaishvili sold the LDT “Auto Service - Borjomi” for 78 000 USD, which he had bought for 4 720 USD and he declares rather openly, that the part of this sum belongs to majority deputy of Borjomi region Nodar Grugalashvili. Argues go on for the mentioned object between the employees of “Auto Service – Borjomi” and David Gogichaishvili and David Gogichaishvili declares, that his is under the protection of Nodar Grigalashvili and nobody will threat him.

2) Rest home “Didveli” located in small town Bakuriani

The mentioned object is located small town Bakuriani, Didveli, where a new rope-way meeting the modern standards, built by Bidzina Ivanishvili is located.

The buyer of the rest home is Jora Gava. He is the father-in-law of the famous criminal authority Giga Gelashvili. Giga Gelashvili, was the head and the founder of the criminal band “Mkhedrioni”, with the help of which Nodar Grigalashvili became the majority deputy. Privatization of the constructive rest home “Didveli” was implemented in the form of auction, and as the constructive objects are not sold in the form of competition this recalls a little doubt. During privatization process in the form of competition buyers are submitting closed envelopes instead of auction, where the bargain continues openly. We had explained all this, because of the fact that Bidzina Ivanishvili is interested with this object as it is located near his rope-way. Giga Gelashvili was bargaining with Bidzina Ivanishvili about this object and he was requiring 5 million dollars for it. It is also clear, that Nodar Grigalashvili helped Giga Gelashvili to take hectares of lands.

Primary selling price of the object was 26 000 USD, and in the result of bargain it was sold for 99 000 USD. Using the informational document for selling this object, the most important term is violated: Informational statement should include the name of the object to be sold, price and the amount of prepayment. Also, the terms of participation in the auction, that had not been

published in the newspaper “Borjomi”. The history of this object ends with the history of buying and selling comes to the president of Georgia, and he stops the privatization process.

After studying all the information about privatization mentioned above, we clarify the personalities of the persons participating in privatization process and the authorities standing behind these persons. During privatization process of the mentioned objects, main actors were only the citizens of Georgia. But violations are reported in selling privatization objects of Borjomi region not only to local, but also to foreign investors. We should mention privatization process of so-called 4th department, where the buyer is Kazakh Company “Kaz munai Gas Service”. Based on the official information, “Kaz Munai Gas Service” paid 10 million USD for the 4th department and, he should invest 50 million USD on the following stage for making organizational activities. According to non-official information, the sum, paid by them was 50 million USD already on the primary stage.

We also suppose that in the nearest future during privatization process of the left objects, a lot of criminal acts will take place. There are a lot of rest homes existing on the balance of Professional Trade, which for their further privatization are already located in the State Property. But, it is inadmissible to sell these objects without improving privatization legislation and having transparent privatization process.

It is important to mention, that on June 26, 2006, on the meeting with the attorneys president Mikheil Saakashvili required selling the hotels located in Borjomi region to foreign investors. At the same time, almost entire territory on the right side of the river Mtkvari was declared as a recreational zone. According to the above mentioned, rising interest recalled the purchase of real estate in the recreational zone, but foreseeing the current situation (generally provoked by the inconvenience of time limited law on privatization and by the limitless “interest” from officials of different range) it is possible, that criminal trends of selling properties will be still presented.