



GEORGIA

July 2020

TECHNICAL ASSISTANCE REPORT—THE PUBLIC SECTOR BALANCE SHEET AND STATE OWNED ENTERPRISES

This Technical Assistance Report Paper on Georgia was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in November 2019.

Disclaimer:

This document was prepared before COVID-19 became a global pandemic and resulted in unprecedented economic strains. It, therefore, does not reflect the implications of these developments and related policy priorities. We direct you to the [IMF Covid-19 page](#) that includes staff recommendations with regard to the COVID-19 global outbreak.

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**International Monetary Fund
Washington, D.C.**

Georgia

The Public Sector Balance Sheet and State-Owned Enterprises

Jason Harris, Viera Karolova, Vincent Tang, John Zohrab, Philip Barry, and
Irina Grigoryan



Technical Report

January 2020

CONTENTS

ACRONYMS	5
PREFACE	6
EXECUTIVE SUMMARY	7
I. PUBLIC SECTOR BALANCE SHEET	10
A. The 2018 Public Sector Balance Sheet	11
B. Evolution of the Balance Sheet	14
C. The Intertemporal Balance Sheet	21
II. SECTORIZATION	26
A. Methodology	27
B. Results	28
C. Way Forward	31
III. THE SIX LARGE SOES	34
A. Introduction	34
B. Recent Financial Performance	35
C. Projected Financial Performance	37
D. Fiscal Risks Statement	38
E. Financial Risks	40
IV. ACCOUNTING AND REPORTING REFORM	41
A. Introduction and Background	41
B. Current Status of the Reform	44
C. Immediate Steps for the Reform Progress	47
D. Way Forward	49
E. Accounting Reform Risks	50
BOXES	
1.1. Assembling Georgia's Balance Sheet	15
2.1. Criteria for Determining Whether an Entity is an SOE	29
2.2. Practical Application of the Market/Non-market Test	33
4.1. Illustrative Double Entries for Government Debt	48
4.2. International Organization for Supreme Audit Institutions (INTOSAI) Financial Audit and Accounting Subcommittee (FAAS) Explanation of Fair Presentation Framework	49
FIGURES	
1.1. 2018 Public Sector Assets and Liabilities	12
1.2. Net Worth International Comparisons	13
1.3. Net Financial Worth International Comparisons	13

1.4. Non-Financial Public Corporations Assets	13
1.5. Liquidity Exposure	14
1.6. Foreign Exchange Exposure	14
1.7. Public Sector Assets and Liabilities 2012–18	16
1.8. Decomposition of Changes in Net Worth	18
1.9. Gross Financing Needs of General Government	19
1.10. Decomposition of Changes in Public Corporation Equity	20
1.11. Non-Financial Public Corporation Returns	20
1.12. Old Age Dependency Ratio	23
1.13. Health and Pension Projection	23
1.14. Intertemporal Net Financial Worth Under Pension Variant 1	24
1.15. PPA Guarantees Baseline	24
1.16. INFW under Pension Variants, and Population Scenarios	25
1.17. Fiscal Tightening Required Every Decade to Maintain Net Financial Worth	25
3.1. Aggregate ROA and EBITDA/Assets 2012–22	36
3.2. Aggregate Leverage (D/(D+E)) 2012–22	36

TABLES

0.1. Summary of Recommendations	9
1.1. Georgia’s 2018 Public Sector Balance Sheet	11
1.2. Outstanding On-lending to Public Corporations	18
1.3. Operating Balances of Selected Public Corporations	20
1.4. Pension Variants Modelled for Fiscal Projections	23
2.1. Impact of Sectorization on Georgia’s 2018 Fiscal Aggregates	28
3.1. Aggregate Financial Metrics, 2012–22	37
3.2. Net Financial Flows from the Government to the SOEs	39
3.3. Net Financial Exposures of the Large SOEs to the Exchange Rate	39
3.4. Gross Financing Requirements of the Large SOEs	40
4.1. Original Timetable for Introduction of IPSASs	43

ANNEXES

I. SOES Assessed as General Government Units	52
II. Impact of Sectorization on Fiscal Aggregates	57
III. SOE Financial Summaries	58

ACRONYMS

b	Billion
CD	Capacity Development
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
EFF	Extended Fund Facility
FAD	Fiscal Affairs Department
FMIS	Financial management information system
FRS	Fiscal Risk Statement
GDP	Gross Domestic Product
GEL	Georgian Lari
GFS	Government Financial Statistics
GOGC	Georgian Oil and Gas Corporation
GR	Georgian Railway
GSE	Georgian State Electrosystem
IFNW	Intertemporal Financial Net Worth
IPSAS	International Public Sector Accounting Standards
IFRS	International Financial Reporting Standards
JSC	Joint Stock Company
LEPL	Legal Entity of Public Law
LLC	Limited Liability Company
LM	Line Ministry
m	Million
MKR	Marabda-Kartsakhi Railway
NPAT	Net Profit after Tax
PFM	Public Financial Management
PPA	Power Purchase Agreement
PPP	Public Private Partnership
PSBS	Public Sector Balance Sheet
QFA	Quasi-fiscal activities
ROE	Return on Equity
SAO	State Audit Office
SOE	State Owned Enterprise
TA	Technical Assistance
UN	United Nations
UWS	United Water Supply Company of Georgia

PREFACE

In response to a request from the Deputy Minister of Finance, a Fiscal Affairs Department (FAD) capacity development mission took place in Tbilisi from November 6–25, 2019. The mission provided guidance on compiling, analyzing and using the public sector balance sheet. The mission comprised of Jason Harris, Vincent Tang and John Zohrab (FAD), Viera Karolova (STA), as well as Phillip Barry and Irina Grigoryan (short term experts).

From the Ministry of Finance, the mission met with: Mr. Nikoloz Gagua, Deputy Minister, Mr. Z. Tolordava, Head of Accounting and Reporting Department, Ms. E Guntsadze, Head of Budget Department, Mr. S Gunia, Head of Fiscal Risk Management Division, Mr. I. Katcharava Deputy Head of Public Debt Management Department, Mr. M Gelashvili, Head of Macroeconomic Analysis Department.

Outside of the Ministry of Finance, the mission met with Mr. David Tvalabeishvili, Deputy Minister, Mr. V. Tsintsadze of the Ministry of Economy; Ms. E. Ghazadze, Deputy Auditor General from the State Audit Office; Mr. V. Pkhakadze, Head of Monetary Statistics Division, Mr. V. Pkhakadze, Head of Balance of Payments Division, Ms. Tamar Baiashvili, Head of Monetary Policy Division from the National Bank of Georgia.

In addition, the mission met with Mr. Giorgi Tsimakuridze, Chief Financial Officer, Partnership Fund; Mr. Mamuka Skhiladze, Chief Financial Officer GSE; Ms. Salome Vashakidze, Head of Financial Reporting and Budgeting Division, UWS; Mr. Vasil Vashakidze, Head of Analytical Department, National Agency of State Property; Mr Gocha Chagelishvili, Head of Financial Department, MK Railway; Mr. Omar Ogbaidze, Chief Financial Officer, GOGC; Mr. Irakli Titvinidze, Chief Financial Officer, Georgia Rail; and Mr. Zviad Kilasonia, Head of Financial Department, Engurhesi.

The mission also met Mr. Pierre Messali, Mr. Patrick Umah Tete, Ms. Natalie Manuilova, Ms. Irina Gordeladze and Mr. Joseph Melitauri from the World Bank.

The mission held workshops on the Public Sector Balance Sheet for the MoF and NBS and SOE financial analysis for the MoF Fiscal Risk Division.

The mission wishes to extend its gratitude to the staff of the Ministry of Finance for their organization of meetings and facilitation of the mission, in particular Shota Gunia and Maia Lavrinenko of the Fiscal Risks Division. The mission is also grateful to Mr. S. Cakir, IMF Resident Representative, Ms. N. Sharashidze and Ms. K. Danelia of the IMF office in Tbilisi, for their outstanding support and to Natia Jakhia and Maka Chkeidze for their able interpretation.

EXECUTIVE SUMMARY

Georgia's public sector balance sheet (PSBS) is in relatively healthy shape, with assets exceeding liabilities, and is comparatively lean. Looking across all entities that the government controls, including the central government, local governments, the State-Owned Enterprise (SOE) sector and the National Bank of Georgia (NBG), total assets are worth 149 percent of GDP, made up of cash, loans, infrastructure, land and productive SOE assets. Liabilities are worth 81 percent of GDP, primarily comprising loans and debt of the government and SOEs. This leaves positive net worth of 68 percent of GDP, putting it in the top third of countries in the IMF's database.

The PSBS's large foreign exchange exposure and relatively large SOE sector highlight some risks. With a net foreign exchange exposure of around 50 percent of GDP, Georgia's net foreign exchange exposure of 50 percent of GDP is one of the largest amongst measured countries. The SOE sector is large, particularly given the otherwise lean nature of public sector assets, highly risky, and a net draw on the budget. While general government liquidity ratios are relatively comfortable, imminent SOE financing needs of around 18 percent of GDP could prove challenging. Finally, the valuation of government non-financial assets is not in line with international standards, so may be revised down in the future.

Longer term prospects also pose some concerns, with a looming demographic transition and existing guarantees under PPAs set to increase fiscal pressures. While having relatively low health and pension spending, Georgia has one of the largest ageing rates, with the number of working age people supporting each pensioner falling from four to two over the next 50 years. This transition will begin as soon as the mid-2020s—so within the medium-term horizon. At the same time, existing guarantees from PPAs are set to peak in 2024. These are anticipated to be met primarily by customer payments, though under baseline projections the residual payments, that ultimately must be covered by the government, are worth 22 percent of GDP over 40 years, with the annual payment peaking at 0.6 percent of GDP. These payments could double under plausible scenarios, relating to the key risks of foreign exchange domestic price exposure.

Georgia's future fiscal deficits under current policy settings exceed net worth, resulting in negative intertemporal net worth. The ongoing pension policy discussions demonstrate the impact that policy choices today have for the future—with estimates of Intertemporal Net Financial Worth (INFW) varying from minus 122 percent of GDP to minus 178 percent of GDP, depending on different indexing options. The new second pension pillar will increase the size of the balance sheet, calling for greater transparency around asset allocation and returns.

The sectorization exercise identifying whether SOEs should be inside or outside the general government sector crystallizes some of the problems within the SOE sector. This exercise, required as a structural benchmark under the IMF's Extended Fund Facility (EFF), assesses whether 241 SOEs should be sectorized as government units, based on whether they can be

considered commercial entities on economic rather than legal grounds. Overall, 196 of the SOEs, including ESCO, United Water Supply, Melioration of Georgia and the Partnership Fund are to be included within the general government sector. These results highlight the dependence of many SOEs on government funding, as well as the role of government in SOE's management decisions.

While these reclassifications have no impact on the overall PSBS, they will increase the 2018 general government deficit and debt by 0.3 and 1.2 percent of GDP respectively.

General government revenues and expenditures for 2018 will be revised up by 2.1 percent of GDP, and expenditures by 2.4. The impact on debt would be even larger, at 3.8 percent of GDP if MK Railway were reclassified as a 50 percent Georgian general government unit. While it is clearly not a market producer, further clarification is required to determine whether it is a Georgian government-controlled entity.

These issues are not a surprise, due to the high-quality analysis performed in the government's Fiscal Risk Statement, which has been improving since first released in 2014.

In addition to assessing broader fiscal risks, this document analyses the performance of the SOE sector, and has been identifying these risks for some time. With the ongoing assistance of FAD capacity development, the FRS performs financial assessments of major SOEs, and assesses prospects under both baseline and risk scenarios into the future.

A deeper analysis of the SOE sector identifies that underlying operating earnings among most of the big six SOEs are positive, but large recent and pending asset write downs retard the sector. Nevertheless, only one of the SOEs is generating sufficient operating profits to cover its capital costs, and others are making significant losses. Overall the sector has drawn around 6 percent of GDP from the government budget over the past five years, without contributing anything in the way of dividends.

The reliability of the PSBS depends on the quality of the underlying data and accounting systems, which the planned adoption of IPSAS in 2020 will strengthen. While the NBG and SOE accounts are based on International Financial Reporting Standards (IFRS), the government's financial statements are based on national standards, are aggregated rather than consolidated, and remain unaudited at a consolidated level. As a result there are a number of gaps, particularly regarding land and non-financial assets.

This reform is at a critical juncture, with much to do over the remainder of 2019 to have the accounting systems in place for the beginning of the year. The Chart of Accounts are ready, however the instructions to the CoA are not yet ready and need to be supplemented with examples of double entry inputs. The Recognition and Disclosure Instructions, which lays out the standards, are yet to be translated into Georgian, and adjusted to meet local requirements. There is time for this to be completed, but for the reform to be successful, additional efforts are needed to provide training on the instructions and prepare IT systems for the change.

Table 0.1. presents a summary of the recommendations in each of these areas. These provide guidance as to whether the actions can be incorporated in the November 2019 FRS, or should be included in the workplan for the November 2020 workplan.

Table 0.1. Georgia: Summary of Recommendations

Recommendation		Timeline
Public Sector Balance Sheet		
1.1	Strengthen 2020 budget documentation by including returns on government assets, and an expanded assessment of PPAs (e.g. including maximum payment cashflow scenario).	Nov 2020
1.2	Include in (a) 2019 FRS the public sector balance sheet and (b) 2020 budget documentation an updated public sector balance sheet and long run fiscal projections.	(a) Dec 2019 (complete) (b) Nov 2020
1.3	Accelerate stocktaking of public land and buildings.	Nov 2020
Sectorization		
2.1	Include a discussion of the sector classification in the 2019 FRS	Complete (Dec 2019)
2.2	Review the sector classification of SOEs proposed by the mission	Jan 2020
2.3	Repeat the sectorization classification every three years	Jan 2023
2.4	Decide future legal, reporting and institutional framework for SOEs that are general government units	June 2020
2.5	Complete the assessment of the sector status of Marabda-Kartsakhi Railway	Jan 2020
The 6 Large SOEs		
3.1	Finalize and approve an SOE governance law by 2021.	Mid 2021
3.2	Include in the 2019 SFR the gross financing requirements of the big 6 SOEs	Nov 2019
3.3	Include in the 2020 SFR a risk analysis of the top 10 SOEs; align the DSA assumptions; provide base-case macro assumptions (e.g. exchange rate path) to the SOEs; develop a methodology for QFAs; and include a detailed assessment of the gross financing requirements of the major SOEs.	Nov 2020
3.4	Investigate the need to include recapitalisations or other restructurings of the major SOEs with unsustainable capital structures in the fiscal envelopes.	May 2020
Accounting Reform		
4.1	Finalize the Recognition and Disclosure Instructions reflecting the recommendations in the June 2019 FAD mission report	Dec 2019
4.2	Finalize the draft Chart Instruction on its Application of the Chart of Accounts by introducing illustrative double entries	Dec 2019
4.3	Include provision in the Budget Code and the Law on State Audit Office to require presentation of audited consolidated financial statements of the central government to Parliament	Mar 2021

I. PUBLIC SECTOR BALANCE SHEET

1. Public Sector Balance Sheets (PSBS) provide the most comprehensive picture of public wealth. By consolidating the entirety of what the public sector owns and owes, they offer a broader fiscal picture than that provided by debt and deficits alone. They bring together all the accumulated assets and liabilities that the government controls. Producing PSBSs provide the basis for improved fiscal management, highlighting opportunities to increase revenues, reduce risks, and improve fiscal policy making.¹

2. Potential gains from better management of the PSBS are considerable. Analysis of international experience finds that revenue gains from nonfinancial public corporations and government financial assets alone could be as high as 3 percent of GDP a year. Countries with stronger balance sheets are better able to weather economic crises. Experience from a wide range of countries points to the importance of considering the impact of policy on both assets and non-debt liabilities, in addition to debt. It also points to the considerable size of fiscal operations that are conducted outside of the general government, particularly by public corporations, highlighting the importance of including these entities in fiscal risk management.

3. This report updates, refines and extends Georgia's PSBS, covering the period 2012 to 2018. It brings together and consolidates the balance sheets of the central government, local governments, central bank and, most importantly, the non-financial state-owned enterprise (SOE) sector, to give a full picture of the public finances.

4. This allows the balance sheet to be assessed, both internationally and over time, to highlight vulnerabilities as well as opportunities for better management. Taking a complete view of the balance sheet exposes the net exposures of the government, particularly regarding liquidity, financing and foreign exchange. Drawing on the new Public Sector Balance Sheet database launched by the IMF in 2019, Georgia's balance sheet can be compared against a broad range of countries.² Using the seven years of consolidated data, the evolution of the balance sheet can be explored and explained, identifying risks that have occurred, as a guide for future analysis. It also provides an initial understanding of the balance sheet impact of the upcoming reclassification of SOEs (discussed in Section II) and highlights the improvements that accounting reforms will make in their estimation.

5. The intertemporal balance sheet further extends this picture, providing an assessment of how a government's current wealth compares against future fiscal pressures. This approach combines discounted projected long-term fiscal flows with the static balance sheet. Comparing current levels of public wealth with long-term fiscal projections reveals

¹ Opportunities from improved balance sheet management are set out in the October 2018 Fiscal Monitor: Managing Public Wealth.

² <https://data.imf.org/?sk=82A91796-0326-4629-9E1D-C7F8422B8BE6>

how well-placed governments are to meet building demographic pressures and other long-term costs.

Table 1.1. Georgia's 2018 Public Sector Balance Sheet
(Percent of GDP)

	Central Govt	General Govt	Non-Fin Public Corps	Fin Public Corps	Consolidated Public Sector	Consolidation
Total assets	78.6	116.1	29.1	27.9	149.3	-23.8
Nonfinancial assets	41.4	78.5	22.8	0.2	101.5	0.0
Fixed assets	26.6	44.1	22.8	0.2	67.1	0.0
Land and minerals	8.2	27.8	0.0	0.0	27.8	0.0
Other nonfinancial assets	6.5	6.5	0.0	0.0	6.6	0.0
Financial assets	37.2	37.6	6.3	27.7	47.8	-23.9
Currency, deposits, SDRs	4.7	5.1	3.8	4.4	11.5	-1.9
Debt securities	6.2	6.2	0.3	23.3	23.1	-6.8
Equity/invest fund shares	15.2	15.2	0.0	0.0	0.0	-15.2
Other financial assets	11.1	11.1	2.2	0.0	13.3	0.0
Liabilities	47.5	48.2	29.1	27.9	81.3	-23.9
Currency, deposits, SDRs	NA	0.0	0.0	22.4	20.5	-1.9
Debt securities and loans	42.2	42.9	16.2	1.3	53.6	-6.8
Equity/invest fund shares	NA	0.0	11.0	4.2	0.0	-15.2
Insurance, pension, and standardized guarantee schemes	3.6	3.6	0.0	0.0	3.6	0.0
Other accounts payable	1.6	1.6	2.0	0.0	3.6	0.0
Net financial worth	-10.3	-10.6	-22.8	-0.2	-33.5	0.0
Net worth	31.1	67.9	0.0	0.0	68.0	0.0
Revenue	29.8	28.3	6.6	0.7	33.3	-2.4
Expense	28.0	25.5	5.7	0.3	29.1	-2.4
Net lending/borrowing	-1.5	-1.2	0.2	0.5	-0.5	0.0

Source: Staff estimates.

A. The 2018 Public Sector Balance Sheet

6. Georgia's public sector has an estimated net worth of 68 percent of GDP.³ Public sector assets are estimated to be worth 149 percent of GDP, and liabilities at 81 percent of GDP (Table 1.1). The definition of General Government here does not reflect the sectorization discussed in Section II, (which are shown in Annex II). The main components are:

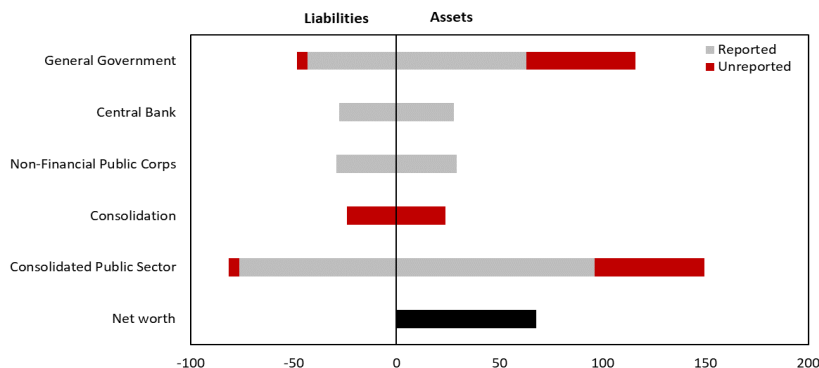
³ Net worth, calculated as assets less liabilities, reflects a country's public wealth, or fiscal solvency. Net financial worth is calculated as financial assets less liabilities and reflects a country's financial position.

- **Non-Financial Assets** of 102 percent of GDP, which include infrastructure, buildings, public land holdings, as well as the fixed assets and equipment of SOEs, such as railways, powerplants and the water network.
- **Financial Assets** of 48 percent of GDP, this includes cash deposits of General Government (5 percent of GDP), as well as debt securities held by the National Bank of Georgia (NBG) for foreign exchange management (19 percent of GDP).
- **Liabilities** of 81 percent of GDP, composed of government debt securities and loans (43 percent of GDP), currency and deposits owed by the NBG (21 percent of GDP).

7. The balance sheet also accounts for the 24 percent of GDP worth of cross holdings of assets and liabilities across different entities of government. These include the 5.7 percent of GDP on lending portfolio, owed to the CG by the SOEs, government deposits at the NBG, and the equity value of the SOEs that the CG owns. While their net impact on the PSBS are nil (cross held assets and liabilities are consolidated), they can be a channel through which risk propagate through the public finances—losses in one sector then impact on others.

8. The public sector balance sheet has significantly larger gross assets and liabilities than those reported by the Central Government in financial statements. The Central Government annual financial statements report assets and liabilities of 63 and 43 percent of GDP respectively for 2018 (Figure 1.1). The main unreported assets are mineral and energy resources, municipal fixed asset holdings and value of public land, while the valuation of government equity assets are significantly understated (reported as they are on a historical cost basis). From 2019 onwards, the balance sheet should include the newly-established Second Pillar pension fund, which was set up in January 2019 (discussed further in Section B).

Figure 1.1. 2018 Public Sector Assets and Liabilities



Source: IMF staff estimates

9. Georgia's balance sheet appears to be in a relatively sound position relative to many other countries. Net worth of 68 percent of GDP is in the top third of countries (Figure 1.2), and net financial worth of minus 34 percent of GDP in the top quartile (Figure 1.3). Further, the balance sheet is relatively lean, with gross asset and liabilities at the lower end of

comparator countries. Georgia's general government liquidity exposure (comparing liquid assets to short-term liabilities, Figure 1.5) and gross financing needs is relatively comfortable (Figure 1.9).

Figure 1.2. Net Worth International Comparisons
(percent of GDP)

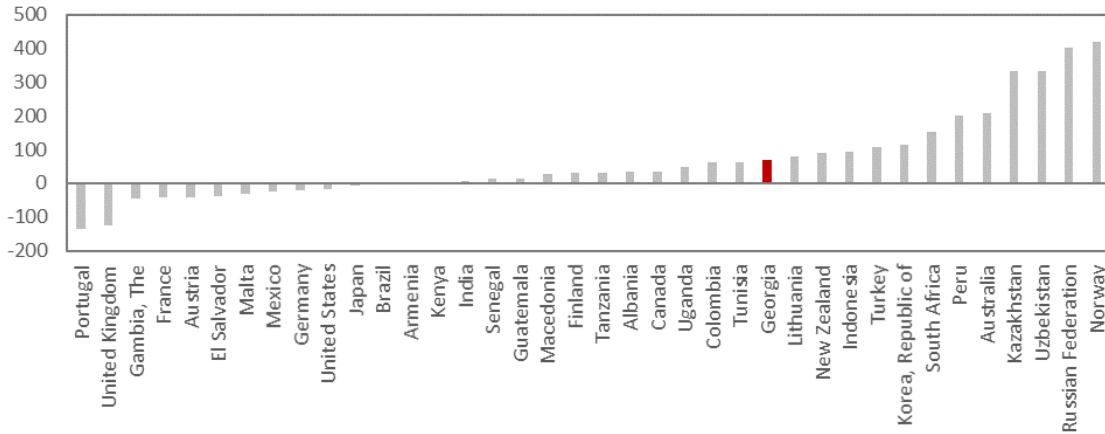


Figure 1.3. Net Financial Worth International Comparisons
(percent of GDP)

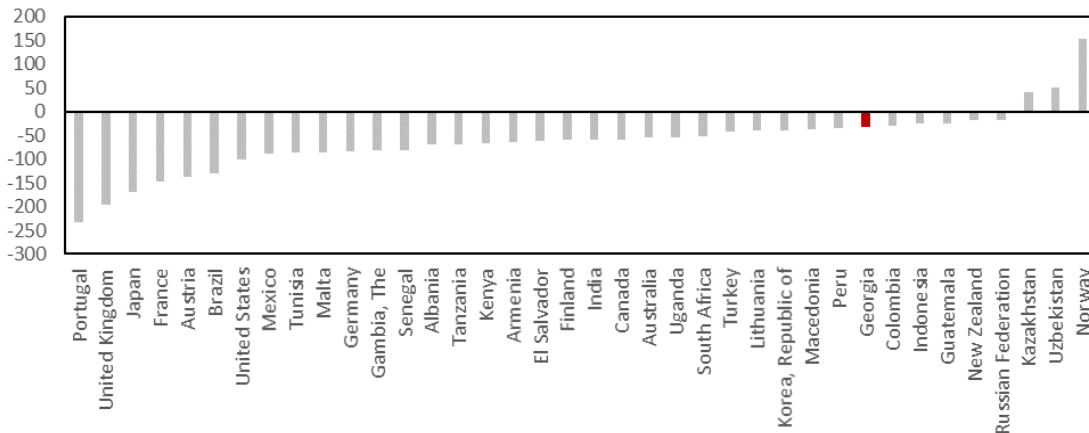
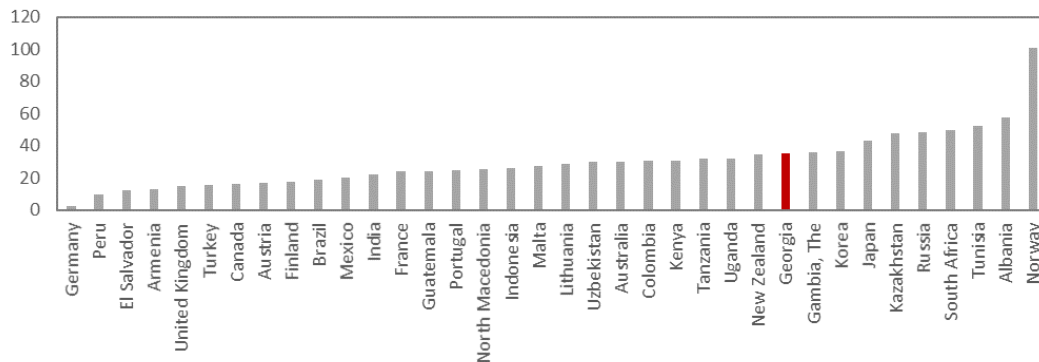


Figure 1.4. Non-Financial Public Corporations Assets
(percent of GDP)



Source: IMF Public Sector Balance Sheet Database, IMF staff estimates.

10. However, there are some areas of concern, particularly around SOEs and foreign exchange exposure. The size of Georgia’s non-financial SOE sector is quite large, particularly relative to the size of the broader balance sheet (Figure 1.4.), and this sector has been a source of crystallized fiscal risks in the past and large emerging financing needs in the future (examined in more detail in Section III). Georgia’s net foreign exchange exposure (excluding central bank reserves, which are held for broader macroeconomic purposes) is close to 50 percent of GDP, one of the largest exposures amongst measured countries. The large majority of this exposure is in USD, with a smaller but significant exposure in euros which is on lent to public corporations.

Figure 1.5. Liquidity Exposure

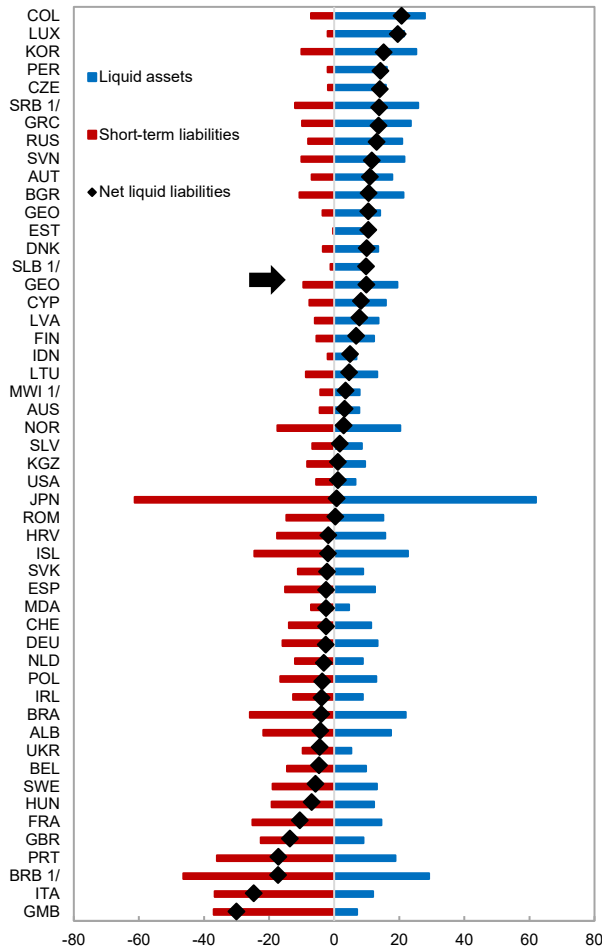
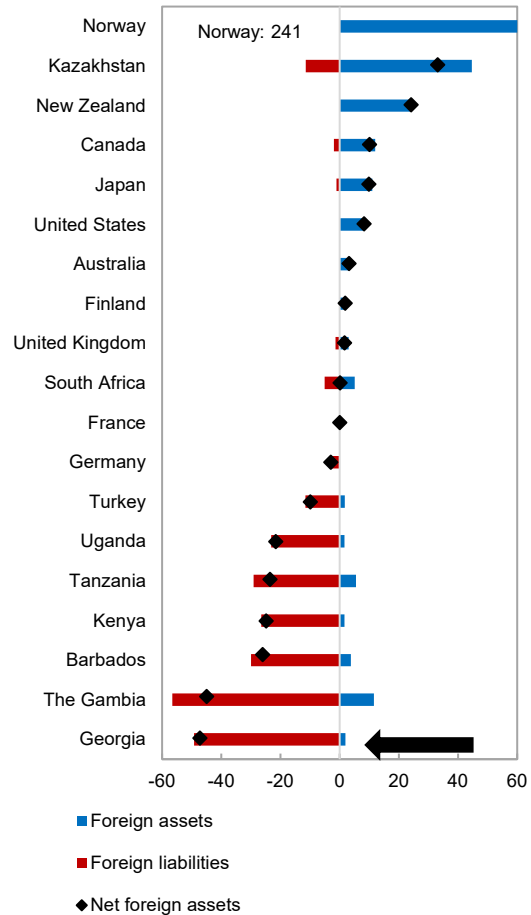


Figure 1.6. Foreign Exchange Exposure



Source: IMF Public Sector Balance Sheet Database, IMF staff estimates

B. Evolution of the Balance Sheet

11. Over the past six years, the balance sheet has expanded by around 20 percent of GDP, although net worth has remained relatively stable (Figure 1.7.). Between 2012 and 2018, assets have increased from 132 percent of GDP to 149 percent of GDP, largely driven by increases in financial assets including debt securities. The 20 percent increase in liabilities, to

81 percent of GDP in 2018 has been almost entirely driven by increased debt levels. The comparable increases in both assets and liabilities has left the net worth of the government relatively stable at around 68 percent of GDP, increasing slightly early in the period, before declining in the last two years driven heavily by impairments in several of the largest Non-Financial Public Corporations.

Box 1.1. Assembling Georgia's Balance Sheet

Producing the balance sheet requires collecting data on stocks of assets and liabilities, and revenues and expenses—primarily from financial statements and statistical reports—for General Government, the non-Financial Public Corporations Sector and the Financial Public Corporations Sector. The main steps are as follows:

Compiling the data:

The main data sources for Georgia can be found as follows:

- General Government: IMF Government Financial Statistics (GFS) and Treasury Financial Statements provide data on the majority of stocks and flows. While fixed assets owned by the central government budgetary units are reported in the Treasury financial statements, there are also significant fixed assets owned by municipal governments, as well as those managed by the National Agency for State Property. These have been approximated here but would benefit from improved estimations. Accrued pension liabilities are not regularly reported.
- Financial Public Corporations: The NBG is currently the only entity in Georgia classified as a financial public corporation*, and data can be obtained from NBG Annual Report and the IMF Monetary Survey
- Non-Financial Public Corporations: Financial statements of SOEs provide the required data, and a reasonably comprehensive set of aggregate data is provided to and compiled by the Fiscal Risks Division of the Ministry of Finance (MoF).

Classifying the data

The next step is to classify each asset, liability, revenue and expense correctly and consistently as best possible according to GFSM standards. This 'mapping exercise' between financial reports and the GFSM classification will require some judgement, particularly for public corporations, as accounting standards may differ between different layers of the public sector. The framework also encourages producing other key breakdowns—by liquidity and domestic/foreign currency denomination—which will provide additional insight into risks of the balance sheet.

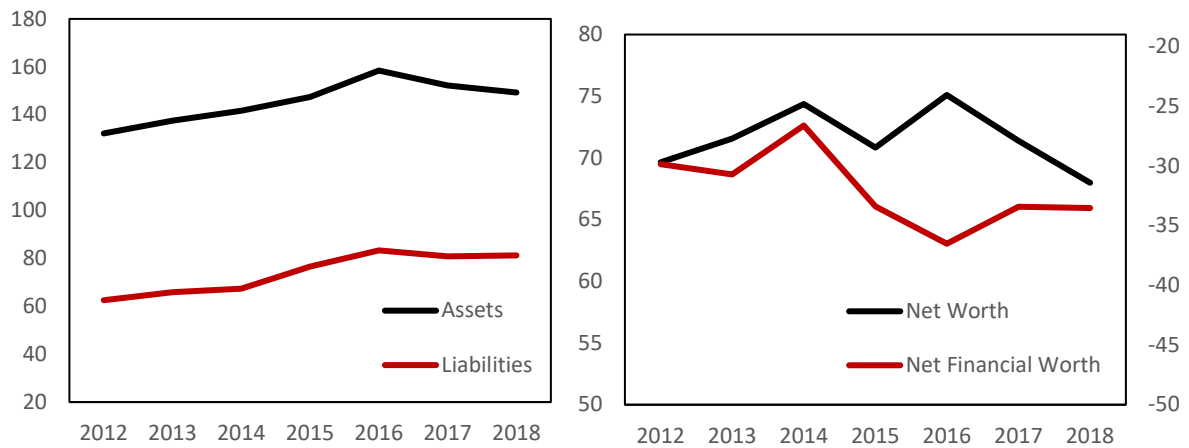
Consolidating the data

The final step is to consolidate out cross-holdings of assets and liabilities between different entities, at each level of the public sector. For Georgia, the main consolidations are between Non-Financial Public Corporation equities and debt and receivables held by General Government (on-lending) and General Government deposits held at NGB.

Once compiled, Georgia's public sector balance sheet can be updated relatively quickly, and efforts can be made to further improve estimates on an annual basis, particularly as efforts on accounting reform (discussed in Section II) begin to bear fruit.

* Partnership Fund is not treated as a financial corporation but rather as a general government unit, as it acts on behalf of the government and doesn't operate like an independent institutional unit (see paragraph 40 and 41).

Figure 1.7. Public Sector Assets and Liabilities 2012–18
(percent of GDP)



Source: Staff estimates

12. The stability of net worth masks large variations in the drivers of the government finances: government and public corporation deficits, large capital expenditures and significant valuation changes. Figure 1.8. decomposes the change in net worth between these drivers. Georgia’s net worth of GEL17.3b in 2012 was then worth 70 percent of GDP. However, rescaling that to 2018 GDP in order to equalize the transactions (and avoiding denominator effect driven variations), net worth as a share of 2018 GDP was worth 42 percent of GDP—the starting point of the decomposition. From there:

- **Deficits and public corporation losses:** The government ran cumulative deficits over the six years of GEL 2b, or 4.9 percent of GDP, all of which required financing through borrowing, thereby increasing liabilities. Public corporations that sit outside the general government ran cumulative deficits of 5.6 percent of GDP, also primarily financed through borrowing—either directly or via equity injections or on lent loans, themselves funded through government borrowing.
- **Capital Expenditure:** Not all of the fiscal deficits were used to finance current spending – over the six years, the government invested 16 percent of GDP in capital expenditure, and public corporations an additional 8 percent of GDP.⁴ This contributed to the public capital stock, which at the end of the period was worth around 67 percent of GDP.⁵ However, this was not a one to one translation of investment into assets; differences will arise due to factors such as investment inefficiencies, impairments and depreciation.
- **Revaluation of public corporation assets:** Not all of the investments have been made in productive infrastructure. Over the last two years, Georgia Rail, one of the largest SOEs has impaired its assets by a cumulative GEL1 billion, reflecting two factors: a GEL380m write

⁴ Capital investment is net of privatization.

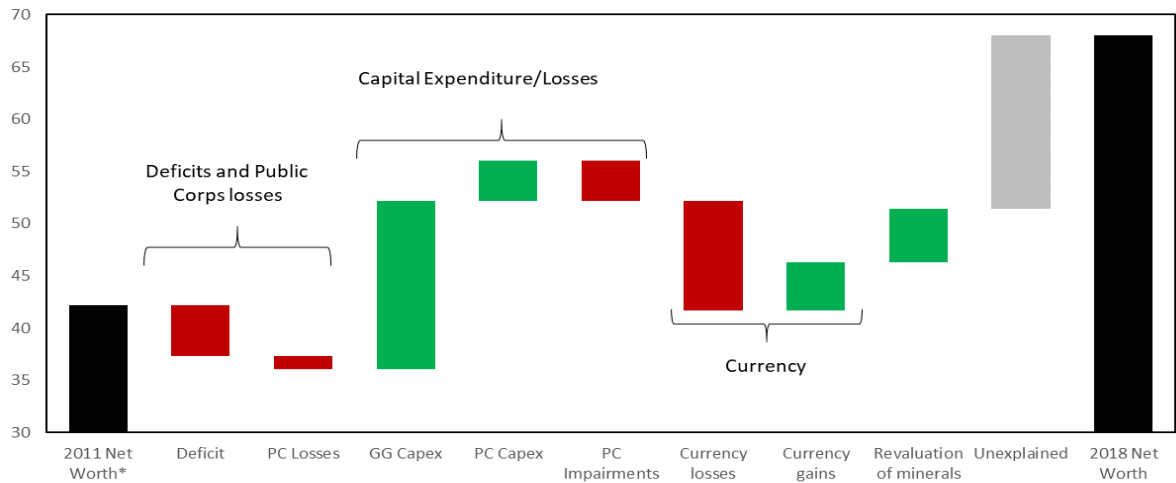
⁵ Accounting for depreciation, as recorded in Treasury financial statements.

down on its Tbilisi bypass project, which was abandoned, and a halving in rail volumes (due to a diversion of oil traffic to a new pipeline). This is an example of valuation risks that are legion in Georgia, where many assets are valued at historic cost, and where a number of future writedowns are likely, particularly around the GEL1.6b (4 percent of GDP) MK railway project, which is currently in severe negative equity.

- **Currency gains and losses:** Over the six years, the currency has depreciated by 60 percent, falling from 1.66 GEL per dollar in 2012, to 2.67 in 2018, with much of this occurring in 2015.⁶ This has had a negative impact on the balance sheet, cumulatively reducing net worth by 6 percent of GDP. However, this is the product of two major countervailing movements. First, around 80 percent of governments borrowings are in foreign currency, so the depreciation—particularly a nominal depreciation relative to the USD—increases their value in Lari. On the other hand, the National Bank of Georgia has around 19 percent of GDP in foreign exchange reserves, by definition held in foreign currencies, whose local currency value offset the impact of the depreciation on government debt.
- **Other revaluations and unexplained changes:** There have been a range of other revaluations and other changes on the balance sheet over the six years, with a cumulative effect of improving net worth by over 20 percent of GDP. Some of these can be explained—for instance by the increase in value of sub soil assets—minerals—that have increased in value due to rising commodity prices, as well as exchange rate effects. The inclusion of public land holdings, the stock of which is currently being identified and compiled by the National Agency for State Property, has added an estimated GEL3.4b in 2018 terms. Others are not easily explained, for instance the 6 percent of GDP increase in valuation of materials and inventory that occurred in the 2016 central government financial statements (included in the ‘unexplained’ block in Figure 1.8). Still others remain unexplained, and this area merits further exploration over the course of movement to International Public Sector Accounting Standards (IPSAS) (Section IV), to determine whether the valuations included in the financial statements are warranted and explainable.

⁶ The GEL has further depreciated, to 2.95 against the dollar during 2019.

**Figure 1.8. Decomposition of Changes in Net Worth
(Percent of GDP)**



Source: IMF staff estimates. * valued in 2018 GDP terms.

13. The on-lending portfolio has resulted in some heavily indebted Public Corporations. Government on-lending worth 5.7 percent of GDP in 2018 (up from 3.5 percent GDP in 2012) was almost exclusively denominated in foreign currency (97 percent in 2018). Since the 2015 currency depreciation, valuation changes have increased the value of these loans by 0.8 percent of GDP. Of the outstanding loan value, 80 percent is owed by four big companies: United Water, GSE, and its subsidiary Energotrans, and Engurhesi. The inability of some Public Corporations to service debt obligations has led to restructuring of the portfolio—15 percent of the current value of outstanding loans has been subject to some rescheduling, primarily through payment extensions of principal and interest. This raises concerns about indebtedness of some public corporations, particularly Energotrans and United Water, the former of which was subject to a restructured loan in 2014 and 2015 (Table 1.2).

**Table 1.2. Georgia: Outstanding On-lending to Public Corporations
(GEL m)**

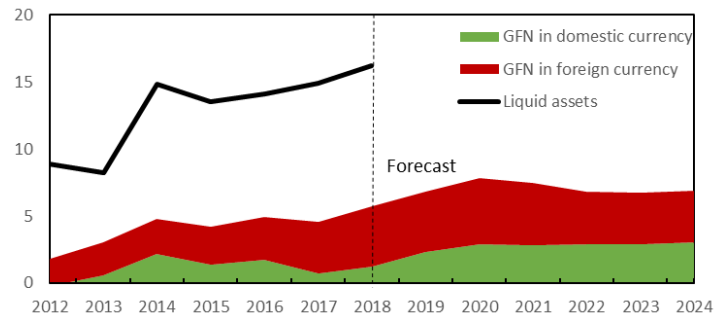
	Outstanding on-lent value at end 2018	Average net operating balance 2012-2018	Total revenue 2018	Ratio of outstanding loan to revenue
Engurhesi	165	7	47	3.5
Energotrans	542	8	54	9.9
Georgia State Electrosystem	455	29	245	1.9
United Water Supply	784	-23	38	20.4

Source: MoF

14. General Government financing needs appear manageable in coming years. Increases in debt in recent years have contributed to rising financing needs. These are forecast to rise further in coming years (from 5.7 percent of GDP in 2018 to 7.8 percent by 2020). However, this

should remain manageable given the government’s considerable holding of liquid assets. These financing needs are also exposed to currency fluctuations, as approximately 60 percent are denominated in foreign currency.

Figure 1.9. Gross Financing Needs of General Government
(percent of GDP)



Source: IMF

15. Of greater concern are the significant financing requirements in coming years for several large SOEs. It is estimated that the Gross Financing Requirements of the six major SOEs discussed in Section III total around GEL 7.6b (18 percent of GDP) over the next three years, with around half raised from the private sector. This includes around USD350m and EUR150 by Georgian Oil and Gas Corporation (GOGC) and USD500m by Georgia Rail. A number of major SOEs are also exposed to significant foreign exchange mismatches on their assets and liabilities. Some SOEs, such as Georgia Rail do receive revenues in foreign currencies, providing a partial hedge against currency fluctuations, but overall the major SOEs are heavily exposed to depreciations—particularly against the USD and euro—due to the large majority of their debt being in foreign currency. It is estimated that a 30 percent depreciation (similar to the depreciation in 2015) would increase the losses of the SOE sector by 4 percent of GDP.

16. Overall, the Public Corporations sector runs a positive net operating balance, before devaluations and impairment effects. The net operating balance for the sector as a whole has averaged 250m GEL since 2012, resulting from a number of large companies with positive net operating balances, but which are offset by a significant number of unprofitable companies.⁷ The five public corporations with the highest and lowest average operating balances are shown in Table 1.3. Further financial analysis is provided in Section III and Annex III.

⁷ Net operating balance calculated as total revenues less operating expenses (which includes depreciation and excludes impairments and currency depreciation effects). Note that figures for net operating balance, return on equity and return on assets shown in this section will not align precisely with those in Annex III, which uses accounting definitions.

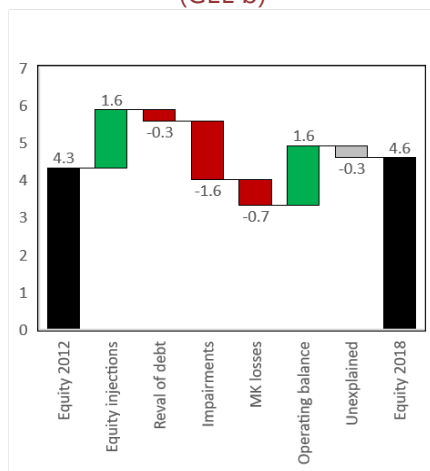
Table 1.3. Georgia: Operating Balances of Selected Public Corporations

	Average revenues		Average operating expenses		Average operating balance	
	GEL (m)	Share of all SOEs (%)	GEL (m)	Share of all SOEs	GEL (m)	% revenues
Georgian Oil and Gas Corporation (GOGC)	536	19.3	365	15.2	170	31.8
Georgian Railway (GR)	533	19.2	403	16.8	129	24.3
Georgian State Electrosystem (GSE)	131	4.7	102	4.2	29	21.9
Electricity System Commercial Operator (ESCO)	289	10.4	286	11.9	3	1.0
Georgian Gas Transportation Company	168	6.1	159	6.6	10	5.7
State Service Bureau Ltd	8	0.3	44	1.8	-36	-430.4
Georgian Melioration	17	0.6	41	1.7	-24	-137.9
United Water (UWS)	37	1.3	60	2.5	-23	-61.8
Tbilisi Transport Company	120	4.3	136	5.7	-17	-14.0
Mechanic	20	0.7	33	1.4	-13	-64.8

Source: MoF

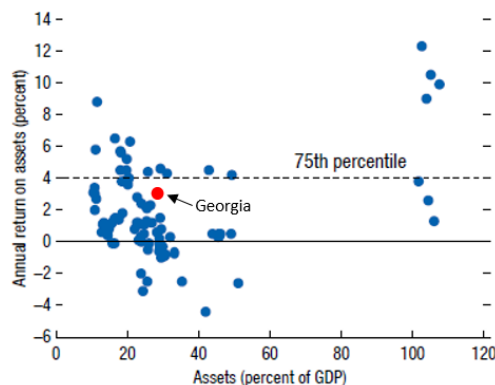
17. The equity value of the Public Corporations Sector has halved relative to GDP over the last six years. Public Corporation equity rose as a share of GDP from 2012 to 2014, but then fell by nearly 10 percent points until 2018. This is despite large equity injections by government starting in 2013 worth 3.8 percent of GDP (1.6b GEL), which were offset by large impairments also valued at 3.8 percent of GDP, particularly at GSE, Georgia Railway, and Energotrans in 2017 and 2018. Further losses from MK Railways and exchange-rate driven revaluations contributed to further reductions in equity, as shown in Figure 1.10.⁸

Figure 1.10. Decomposition of Changes in Public Corporation Equity (GEL b)



Source: MoF and IMF staff estimates

Figure 1.11. Non-Financial Public Corporation Returns



Source: IMF staff estimates

⁸ Percent of GDP figures are as a share of 2018 GDP.

18. Returns to government are mixed across asset classes, but also particularly within the Public Corporations sector. Returns on cash holdings are above the government's cost of borrowing of 3 percent, while returns on SOE assets and on-lending are lower.

- Return on holdings of cash were 5.6 percent in 2018. Excess funds from financing activities are held in long term deposits held in commercial banks. This is a reasonable return as the cost of holding liquidity, against the borrowing costs for government.
- The returns on SOE assets was 2.4 percent in 2018, and averaged 2.5 percent per annum between 2012 and 2018. This is above the average of 1.9 percent for a sample of 14 countries, and below the 75th percentile of 4 percent (Figure 1.11). However, this is before impairments and depreciation effects. Returns on equity averaged 5.1 percent per annum, although it should be borne in mind that this is also before the substantial impairments.
- The government's on-lending portfolio provided a return of 1.7 percent in 2018, and around a third of the loans in the portfolio have been restructured.⁹ These returns are directly transferred to cover the external financing costs of the original loans.

19. Government should improve its reporting on returns on fixed assets and consider the opportunities from improving returns on its portfolio of public land. Returns on fixed assets, such as rent received on government buildings is not separately recorded within government revenues. There are significant holdings of public land and other buildings that are not yet fully comprehensively identified. The stocktaking exercise being carried out by the National Agency for State Property, which began in 2017, is set to identify public land over some 700,000 hectares as well as other public buildings not currently managed by budgetary central government units. The conclusion of this exercise could identify significant underutilized resources which could generate revenues or would be suited for privatization. The FRS should also publish the size and use of the main budgetary contingency fund, and how this is being used for fiscal risk management.

20. The newly-established pension fund will accumulate a very significant asset and liability on the public sector balance sheet over coming decades. Established in January 2019, the 'Second Pillar' pension fund will have accumulated over 400m GEL of assets in its first 12 months, and this is projected to rise to over 60 percent of GDP by 2050. Risks to the return on this fund will emerge, particularly if funds are used to fund economic projects or financing activities that are not seeking to maximize financial returns. The experience of the Partnership Fund (see Section II) are salient.

C. The Intertemporal Balance Sheet

21. While Georgia's current Net Worth is positive, there are fiscal pressures which are likely to build in coming decades that will erode Georgia's balance sheet. Georgia's

⁹ Calculated by interest payments over outstanding principal.

demographics are relatively unfavorable, and the Old Age Dependency Ratio is set to worsen from the current scenario where one old-aged person is supported by five working-age adults, to a situation where they are supported by just two, in 50 years' time (Figure 1.12.). This owes to relatively low fertility rates and improving life expectancy. While there is considerable uncertainty in population projections in the long run, there is a good degree of certainty that the share of older people will rise in the coming decades. What's more, the ageing of the population is starting to occur soon rising steadily from the early years of the 2020s—within the medium term fiscal horizon. Under the more optimistic 'high population scenario' of the United Nations' (UN) Population Projections, the share of people over 65 in the population will rise from 15 percent today to 20 percent in 2069; under the more pessimistic 'low population scenario', it could double to 29 percent.¹⁰

22. Demographic changes will increase pressures on pension and health care spending, which are heavily dependent on the age structure of the population. The share of the population eligible for pensions under the current policy arrangements (above 60 for women, and 65 for men) is set to rise from 18 percent today to between 27 percent by 2069 under the central population scenario, raising the cost of pension spending. Pressures on healthcare spending also rise with the age structure, as well as other non-demographic factors.¹¹

23. The intertemporal balance sheet can be used to analyze how the current wealth of the public sector compares with the future fiscal pressures. While future spending pressures will erode net wealth, it is important to take into account the government's greatest asset – the ability to generate future revenues. By adding discounted future flows of revenues and spending to the static balance sheet, the intertemporal balance sheet provides an assessment of how the public sector's wealth will fare if policy is not adjusted.

24. Fiscal projections are modelled based on unchanged policy, allowing pensions and healthcare to be driven by demographic changes. The main drivers of fiscal pressures are:

- Pension indexation: Pension reforms currently under consideration on indexation will play a large role in determining the overall size of this spending pressure. To project forward pensions, three policy variants are modelled which bear semblance to those being considered. These are shown in Table 1.4.
- 'Second Pillar' pension: This will require additional annual contributions from government, which are modelled to ramp up to an estimated steady state of 0.7 percent of GDP per year after 10 years. It is assumed that this is additional spending, rather than being absorbed elsewhere.

¹⁰ The UN population projections are similar in evolution to those modelled internally by the MoF and the Ministry of Justice, and by normalizing age-related spending to the current level of spending, makes them suitable for making fiscal projections.

¹¹ Relatively weak productivity in the healthcare sector, and rising demand for healthcare services relative to income can cause pressures on healthcare spending to rise even faster.

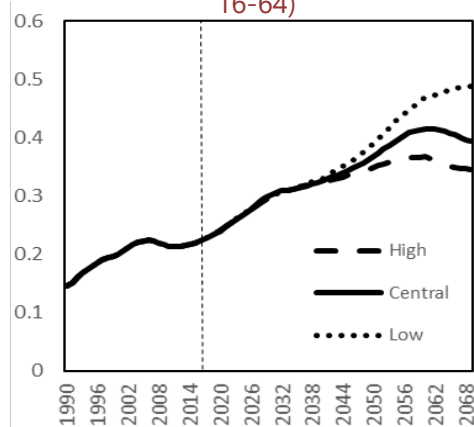
- Healthcare: Pressures are projected to evolve based on demographic changes only (i.e., aged-based population changes).
- Power Purchase Agreements (PPAs): Aggregate government payments under government PPA agreements are modelled, based on projections of power output and energy prices.
- Revenues are assumed to stay constant as a share of GDP.

Table 1.4. Georgia: Pension Variants Modelled for Fiscal Projections

	Variant 1	Variant 2	Variant 3
New Pensioners: Men 65-69 Women 60-69	Inflation	Inflation with GEL 20 minimum increase pa	Inflation + earnings
Old Pensioners: All over 70	Inflation + Earnings	Inflation + Earnings	Inflation + Earnings

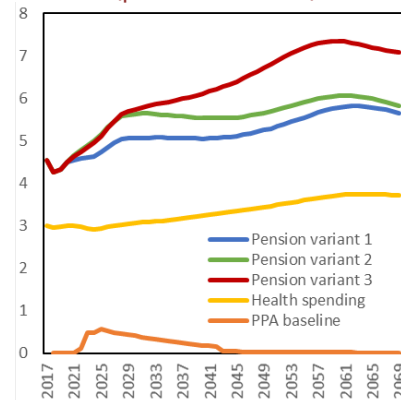
25. Under all scenarios, the primary deficit is set to worsen in coming decades. Based on the median population projection by the UN, demographic pressures are projected to increase the primary deficit by between 1.9 percent (policy variant 1) and 3.3 percent of GDP (policy variant 3) by 2069 depending on the pension policy. The salient spending increases are shown in Figure 1.13. This could increase government debt from the 2018 level of 45 percent of GDP up to between 88 percent to 122 percent of GDP depending on the pension policy. The impact of imposing a GEL 20 minimum increase raises spending for only the first decade of indexation, falling back to an additional 0.1 percent GDP by the end of the 50 year projection to the case without the GEL 20 increase.

Figure 1.12. Old Age Dependency Ratio
(population aged over 65/population aged 16-64)



Source: UN Population Projections and variants

Figure 1.13. Health and Pension Projections
(percent of GDP)



Source: IMF staff estimates

26. Intertemporal net financial worth is estimated to fall from minus 35 percent of GDP to minus 122 percent under pension variant 1 (Figure 1.14.). Adding the discounted flows of primary balances to current net financial worth produces intertemporal net financial worth (INFW); which provides an indication of how well-placed Georgia’s current wealth is to absorb

future fiscal pressures. An INFW of negative 122 percent of GDP implies that the future fiscal pressures implied by current policy (as shown by the present value of health, pensions, and other primary spending), if not adjusted for, would erode public sector wealth further into negative territory. Pension variant 3 could erode INFW even further to minus 178 percent of GDP (Figure 1.16).

Figure 1.14. Intertemporal Net Financial Worth Under Pension Variant 1
(percent of 2018 GDP)

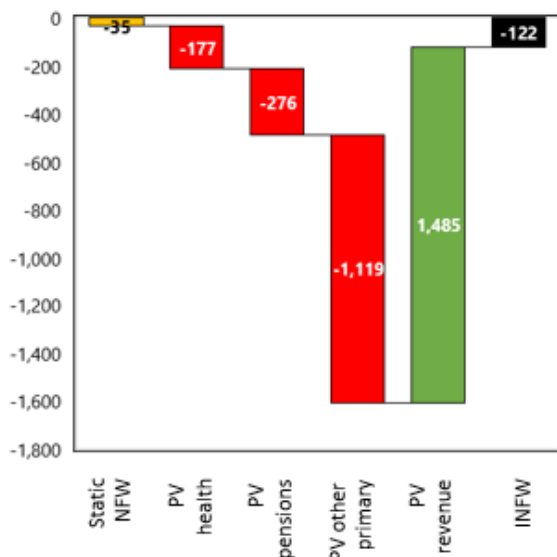
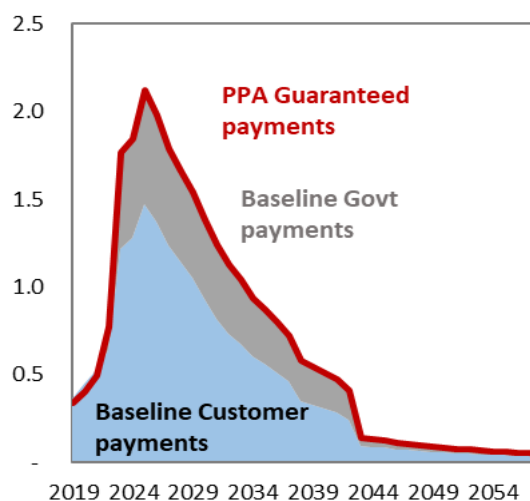


Figure 1.15. PPA Guarantees Baseline
(percent of GDP)



Source: IMF staff estimates

27. The fiscal projections also include the impact of PPAs that the government has entered into, and which have significant long-term implications. These PPAs (more than 150 hundred in total) commit the government to ensuring minimum revenues (or in some cases returns) to power generators over a 50 year plus period worth around 65 percent of 2018 GDP in total, or a discounted value of 27 percent of 2018 GDP.¹² In most cases, the majority of the revenue guarantees are expected to be covered by customer payments, leaving a residual funding gap to ultimately be covered by government of 22 percent of 2018 GDP (discounted value of 12 percent of GDP) under baseline assumptions (Figure 1.15).

28. There are significant fiscal risks associated with these PPAs, as highlighted in in both the 2016 Fiscal transparency Evaluation and Fiscal Risks Statement (FRS). These are in the form of foreign exchange exposure (a 30 percent depreciation would double the government’s exposure) and lower domestic prices, which could be a factor in the near term as the market is being deregulated (though the implication on prices is uncertain) and given the longer term improvements fall in renewable prices.

¹² Based on maximum exposure.

29. The UN’s ‘low’ and ‘high’ projections provide sensitivity analysis to variations in the demographic projections with regards to fertility, migration and longevity. The implications for the dependency ratio are shown in Figure 1.12 and INFW in Figure 1.16. Under the ‘low’ population projections, INFW would reduce by approximately a further 5 percent of GDP due to higher spending on pensions and healthcare, and a smaller workforce. A ‘high’ population projection would increase INFW by approximately 2 percent of GDP, for the opposite reasons. These relatively modest changes are due to the population variants diverging significantly only after two decades from now, when impacts are more substantially discounted. The impact of the high and low population variants on projected debt appear more substantial, adding to projected debt in 2069 by +25 percent of GDP/-15 percent of GDP respectively, relative to the median variant.

30. In order to maintain current net worth, Georgia could make fiscal adjustments over the coming 50 years, either through reducing spending, or increasing revenues. As an illustration, Figure 1.17. shows the amount of fiscal tightening (either through spending or revenue) required each decade—starting in 2025—in order to maintain an INFW at the static level.

Figure 1.16. INFW under Pension Variants, and Population Scenarios
(percent of 2018 GDP)

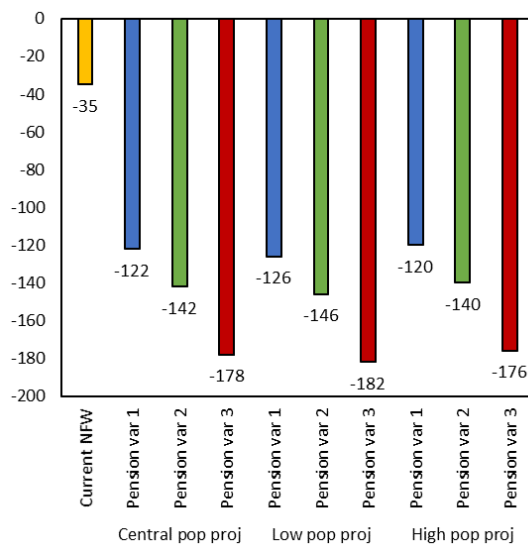
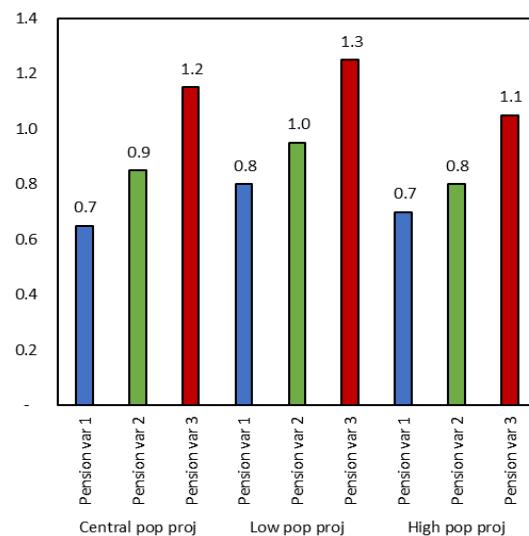


Figure 1.17. Fiscal Tightening Required Every Decade to Maintain Net Financial Worth (percent of GDP)



Source: IMF staff estimates

Recommendations

1.1: Make improvements to the 2020 budget documentation through inclusion of:

- Assessment of return on government assets and equity holdings;
- Expanded analysis of PPAs, including maximum payment cashflow scenario, and risks relating to foreign exchange and energy prices;

- Disclose size and utilization of contingency funds, setting out its role in the government's fiscal risk management strategy.

1.2: Publish the public sector balance sheet with 2020 budget documentation:

- Publish public sector balance sheet in 2019 FRS, and updated public sector balance sheet for 2020 budget documentation, with discussion on net exposures to foreign exchange and liquidity risks;
- Develop and include long run fiscal projections, including impact of policy decisions, highlighting medium-long term demographic changes. Discuss implications for long term fiscal pressures and forthcoming policy decisions on pensions.

1.3: Improve wider balance sheet management through:

- Accelerate stocktaking of public land and buildings, reporting on progress in 2020 FRS.
- Examining debt issuance and asset management policies of both government and SOEs with a view to reducing foreign exchange and liquidity risks.

II. SECTORIZATION

31. The immediate reason for the sectorization exercise performed by the mission was a structural benchmark of the Extended Fund Facility (EFF). According to this, the authorities were to provide, by end-September 2019, a complete list of SOEs qualifying as public corporations and SOEs qualifying as general government units according to GFSM 2014.

32. The underlying reason for the exercise is to help ensure that non-market activities conducted by SOEs are transparent within an appropriate framework. The 2008 financial crisis illustrated the significant materialization of fiscal risks that can occur if non-market activities are not captured in general government fiscal statistics and if they are conducted within a governance, control, financing and reporting framework that is suitable for market activities.

33. The MoF made strenuous efforts to complete the exercise and reached conclusions on the status of many SOEs. However, the difficulties in obtaining data and in applying the criteria were greater than expected. The upshot was that the authorities requested the deadline for the structural benchmark to be reset to end-March 2020 and Capacity Development (CD) from both FAD and STA to be provided to complete the exercise.

34. While not having any impact on the overall public sector aggregates of the balance sheet—all units being examined are within the public sector – it does affect the sectors within. The reclassification of entities from the SOE sector to the general government will increase GG assets, liabilities, revenues and expenditures, with implications for the debt and deficit. It is also related to ongoing FAD CD activities in other ways:

- **Fiscal oversight of public corporations.** FAD provided advice on a draft government decree on the mandate, governance and reporting requirements of public corporations.;
- **Disclosure of fiscal risks in the FRS.** FAD is providing ongoing advice to the MoF on the preparation and enhancement of this disclosure. Its content would be affected by the results of the sectorization; and
- **Accounting reform.** FAD is providing ongoing advice on a revised accounting framework for budget organizations and Legal Entities of Public Law (LEPL). This framework will apply to SOEs that are classified as general government units and—is based on IPSASs, which provide that the only exceptions to their application to the separate financial statements of government-controlled entities are entities that are operating on a commercial basis.

35. The mission examined the sector classification of 241 SOEs identified by the MoF.

This list of public entities included 112 SOEs controlled by the central government, 73 SOEs controlled by local governments (municipalities), and 56 subsidiaries of SOEs. These SOEs have been established legally as joint stock companies (JSCs - 34) and limited liability companies (LLCs - 204). Data based on financial statements for 2018 were only available for the 63 largest SOEs operating mainly in the area of transport, electricity, gas and water production, and trade. Their share in the total production costs of all SOEs for which data were available accounted for 29.5 percent, 16.1 percent, and 8.7 percent respectively. Out of 178 SOEs for which financial statements were not available, 54 were deemed to be inactive for the time being as they report a zero number of employees.

A. Methodology

36. The general methodology for classifying entities into general government units or public corporations is set out in *GFSM 2014*. Distinguishing between the general government and the public corporation sector depends on whether the entity operates on a market or non-market basis. Those entities that operate like market producers should be classified in the public corporation sector, and those entities that do not charge economically significant prices and thus operate on a non-market basis should be included in the general government sector.

37. One of the basic principles of international statistical standards is that economic substance should prevail over the legal form. Some public entities constituted under national legislation as companies (e.g. JSC, LLC) could in fact act as government units, i.e. as producers of goods and services on a non-market basis. Such entities should be classified in the general government sector irrespective of their legal form. Also, if an entity is established by government as a separate legal entity, but cannot act independently to exercise its principal function, it should be classified with its parent unit in the general government sector.

38. Accordingly, SOEs should be classified as general government units if they:

- Don't act as independent institutional units, i.e. if they act as government agents; and/or

- Do not provide goods and services at economically significant prices; and/or
- Depend on a regular financial assistance from the government.

B. Results

39. Based on the available information, the mission classified 196 SOEs as general government units and 44 as public corporations. In addition, the mission decided that one SOE, Marabda Kartsakhi Railway (MKR), required further assessment at IMF headquarters (see below). The impact of public entities qualified as government units on Georgia’s 2018 fiscal aggregates is illustrated in Table 2.1 and Annex II, measured according the GFSM 2014 methodology, both excluding MKR and including 50 percent of it for illustrative purposes.¹³

Table 2.1. Impact of Sectorization on Georgia’s 2018 Fiscal Aggregates
(percent of GDP)

	Excluding MKR	Including 50 percent of MKR
General Government Debt	+1.2	+3.8
General Government Balance	-0.3	-0.3
General Government Revenue	+2.1	+2.1
General Government Expenditure	+2.4	+2.4

A complete list of SOEs classified as government units is provided in Annex I.

40. Based on available information, and in agreement with the MoF, SOEs were classified as general government units principally because of the following reasons:

- **18 SOEs did not act as autonomous institutional units.** They either acted on behalf of the government (ESCO and the Partnership Fund), sell most of their output to government, or are the only supplier to government without going through an open competition. The most significant SOEs in the latter category were Melioration of Georgia, State Construction Company, State Food Company, and Construction Company - Builder 2011.
- **68 SOEs did not provide goods and services at economically significant prices as described in Box 2.1.** These are mainly providing health services (60 SOEs) which were financed by government in the context of the government health programs and in most cases the payments were not linked to the service provided but rather to the number of registered patients and similar indicators not reflecting the actual price of goods and services. Accordingly, these payments could not be classified as sales when assessing the market/non-market test. Among the remaining units in this category, the most significant companies which failed the market/non-market test are the following: Mountain Resort Development Company, Mechinazatori, Batumi auto transport, and Rukhi Trade Center.

¹³ MKR balance, revenue and expenditure are too small to have an impact at one decimal place.

Box 2.1. Criteria for Determining Whether an Entity is an SOE

Does the entity meet the criteria of institutional units?

If a government-controlled entity doesn't qualify to be an institutional unit, it should be consolidated within the general government sector. To determine if the public entity meets the criteria of institutional units, the entity should be:

- entitled to own goods or assets on its own right; and
- able to exchange the ownership of goods or assets in transactions with other institutional units; and
- able to take economic decisions and engage in economic activities for which it is responsible and accountable; and
- able to incur liabilities on its own behalf, to take on other obligations and to enter into contracts; and
- able to draw up a complete set of accounts, comprised of accounting records covering all its transactions carried out, as well as have a balance sheet of assets and liabilities.

Some further qualitative criteria indicate that an entity does not undertake a market activity and is not an institutional unit:

- If the unit is a dedicated provider of ancillary* services to government, it is a non-market producer and, in general, it would not satisfy the criteria to be an institutional unit. Therefore, it should be consolidated within the government unit.
- If the unit sells most of its output to government, or if it is the only supplier to government, and it does not go through open competition (e.g. through tender procedures), its level of output and the price it receives for it are not determined by the market, but by the government that is their sole client. Such units should be consolidated within the general government sector.

Does the entity charge economically significant prices?

International statistical standards introduced a practical quantitative criterion (the so-called market/non-market, or 50 percent test) to distinguish market and non-market producers by comparing revenue sales and production costs over the medium term. A public unit engaged in non-financial activities will be classified in the public corporation sector only if:

- Revenue from sales > 50 percent of production costs over at least 3 years
- Sales of goods and services should not include: (i) any payments receivable from government unless they would be provided as a real "purchase of goods and services" granted to any other producer undertaking the same activity (per unit of the goods/services provided); (ii) compulsory payments, such as fees for permits and licenses collected by public entities, that are de facto taxes; and (iii) other sources such as holding gains, property income, investment grants, or capital transfers.

Production costs include compensation of employees, use of goods and services, consumption of fixed capital (CFC), other taxes on production, and return on capital. Production costs should not include revaluation losses. For practical reasons, return on capital could be measured as a net interest expenditure (interest expense minus interest revenue). CFC should be based on a market price of the underlying non-financial assets.

Does the entity depend on a regular financial assistance by government?

In some cases, a unit can pass the 50 percent test, but it is not able to function without regular financial support by government. Therefore, a more comprehensive and complex analysis should be done to examine if the entity benefits on a regular basis from government transfers or from capital injections that do not provide a market rate of return to the government, payments of guaranteed debt, debt cancellations, debt assumptions, or if the entity has large accumulated losses, arrears and/or large overdue debt to government.

* An ancillary activity is a supporting activity to enable the government to carry out its activities (e.g. accounting, data processing, transportation, maintenance, cleaning, or security services).

- **16 SOEs depended on the regular financial assistance from government.** Even if sales of some SOEs deemed to cover 50 percent of their production costs, they lack the capacity to carry out their activities using own resources and heavily depend on the financing from government by means of subsidies, capital transfers, and equity injections. The latter are de facto unrequited transfers (gifts) to SOEs rather than investments into financial assets (equities) as the injections do not bring to government any property income, such as dividends. The most significant entities in this category were the United Water Supply Company (UWSC), Black Sea Arena Georgia, and Football Club Beacon.
- **23 SOEs owned by municipalities were engaged in loss-making activities requiring government support but for which data were not available to conduct the market/non-market test.** This category includes mainly municipal utility and construction companies, such as Tbilsservice Group, Kobuleti water, Communal Framing, and Utility Service of Batumi. It is conceivable that some of these SOEs could in future be reclassified as public corporations after improved data became available, but it would not be prudent to classify them as public corporations at this stage.
- **Data were not available for the remaining 71 small SOEs, of which the majority (48) were inactive.** These companies are classified into the general government sector due to prudent reasons. If relevant data proving that they operate on market basis becomes available, they should be reclassified into the public corporation sector. Out of the 23 active SOEs in this category, 8 are owned by municipalities, 3 by the MoESD, and 2 by the Partnership Fund (Startup and Lycan residence). The remaining SOEs are owned by other SOEs.

41. The mission’s specific reasons for the most significant classifications of SOEs as general government units were:

- **Partnership Fund:**
 - With respect to its legacy assets, Georgian Oil and Gas Company (GOGC), Georgian Railway (GR), Georgian State Electrosystem (GSE) and Electricity System Commercial Operator (ESCO), it does not produce any output, as the shareholder rights, except for the receipt of dividends, are exercised by the MoESD;
 - Its supervisory board, chaired by the Prime Minister, now comprises only ministers and no independent members. At board meetings, they act as members of the government, not as members of the board with duties only to the Partnership Fund, which appears inconsistent with both the Law on the Partnership Fund and the Law on Entrepreneurs;
 - Non-commercial government policies have in recent years been driving an increasing proportion of its decisions on new investments and have been constraining its ability to manage its investment portfolio, which is now highly illiquid and inconsistent with its mandate of entering into projects with a clear exit strategy; and
 - The prospective overall performance of the portfolio is inconsistent with the return on equity that would be expected from a commercial entity.

- **ESCO.** The company's owner, the Partnership Fund, considers it to be a non-commercial regulatory body and not a commercial enterprise. It is an agent of the government in implementing the cross-subsidization of electricity generation costs and in signing PPAs. Moreover, it is very thinly capitalized, which means that it is implausible to view it as being able to assume the risks of PPAs autonomously; and
- **UWS.** This SOE has consistently made significant losses and there is no realistic plan for it to become profitable in the near future. It reports large cumulative losses (1.2 percent of GDP) and unpaid payables (0.1 percent of GDP) and has only survived financially because of additional subsidies and injections of equity. The current intention is to establish a PPP to operate UWSC's assets, which is indicative of the lack of confidence in its future commercial viability.

42. The mission's assessment is that MKR is currently a non-market SOE. This is because of the cost overrun on the railway project that it is constructing—from USD 200 million estimated in 2007 to USD 775 million estimated at present. This cost overrun means that the current agreement—to transfer the assets and liabilities of MKR to a joint venture between GR and Azerbaijan Railways (which is yet to be established)—appears inconsistent with the joint venture being commercially viable. There would need to be a large upward revaluation of the assets and/or a large injection of equity into the joint venture and/or a large conversion of the debt into equity or quasi-equity in order for the joint venture to be commercially viable. None of these are in prospect—indeed, the assets might be impaired if they were required to be reported according to international accounting standards. Therefore, there appears to be no realistic basis at present for assessing MKR as a commercially viable project and therefore for concluding that it is a public corporation. Although the mission concluded that MKR is a non-market SOE, it did not reach a conclusion as to whether the risks are borne, and it is controlled in substance, solely or predominantly by Georgia, or solely or predominantly by Azerbaijan, or by the two governments jointly on a 50/50 basis, as this would require more extensive assessment of the relevant facts and documents.

C. Way Forward

Fiscal Risks Statement

- 43. The revised FRS should include a sub-section on the sectorization exercise.** It should:
- Explain why the exercise was important and needed to be done;
 - Summarize the criteria for classifying entities as public corporations or general government units;
 - Indicate that possibly as many as 196 SOEs will be classified as general government units;

- Summarize the possible impact of the sectorization on fiscal aggregates as per Table 2.1, excluding MKR;
- Identify the larger SOEs that could be classified as general government units; and
- Note that the status of MKR is uncertain at this stage.

Completing and Improving Fiscal Statistics

44. The authorities should submit to the IMF any suggested changes to the sector classification proposed by the mission based on new information, data, and follow-up examinations, as relevant. In order to process these suggestions in time to meet the structural benchmark deadline of end-March 2020, they should be submitted by end-December 2019.

45. After March 2020, the authorities should continue monitoring all public entities on a regular basis and make sector reclassifications as appropriate.

PFM System Consequences

46. Decisions will need to be made on the following Public Financial Management (PFM) issues in respect of SOEs classified as general government units: legal status, financial accounting and reporting, disclosure in budget process, and treasury coverage.

There are two main options. It would be desirable for a decision to be made on the preferred option before end-March 2020, at the same time as the final decision is made on the classification. Once the decision on the main option is made, a road map should be drawn up for completing the work and for attracting any necessary CD for assisting its execution.

47. The first option is to convert the SOEs that are classified as general government units into Legal Entities of Public Law (LEPLs). The advantage of this option is that appropriate frameworks for LEPL financial accounting and reporting, disclosure in the budget process and treasury coverage are in place and it would be largely straightforward to apply them to former SOEs that are classified as general government units. The disadvantage of this option is that the SOEs would have to be wound up and all their assets and liabilities transferred to new LEPLs; this process could be complex and time-consuming.

48. The second option is to retain the current legal status of the SOEs that are classified as general government units. The advantage of this option is that it would avoid the problems of winding up these SOEs and transferring their assets and liabilities to newly-established LEPLs. The disadvantage of this option is that it would mean: (i) amending the Law on Accounting, Reporting and Auditing to exclude such SOEs from its provisions; (ii) amending the Budget Code to apply to such SOEs provisions on accounting, reporting, budget process disclosure and transaction execution such as those for LEPLs; (iii) decrees, regulations and instructions to give effect to (i) and (ii); making all these amendments could be complex and time-consuming.

49. A decision will need to be made on the status of MKR. This should desirably occur before end-March 2020. The assessment will turn on the extent to which the government of Azerbaijan controls MKR in substance as distinct from in legal form.

Box 2.2. Practical Application of the Market/Non-market Test

The quantitative 50 percent criterion in combination with the qualitative criteria should be applied on a regular basis to all public producers classified outside as well as inside the government sector and consequently, appropriate changes in the sector classification of individual public units should be done.

The following practical approach might be applied:

- The unit should be classified into the government sector if the market/non-market test holds below 50 percent for 3 years in a row;
- If the unit had not passed the test for less than 3 years in a row, and it is expected not to pass it in the following years, it should be classified in the government sector;
- If the results of market/non-market test are very volatile, more comprehensive analysis of the financial results, relations with government, and examination of the business plan should be done to decide on the sector classification;
- Minor fluctuations (or a result deemed to be a one-off exceptional case) in the ratio of sales to production costs from one year to another, do not necessarily need to result in a reclassification of institutional units.

For units already included in the government sector, only when the market/non-market test holds above 50 percent for at least 3 years, or in cases where the unit had passed the market/nonmarket test in the preceding year and it is strongly expected to hold it for near future, then the unit could be reclassified from the government to public corporations sector.

When a new public enterprise is established and it passed the qualitative criteria, but it is not possible to conduct the 50 percent test as data are not available yet, the classification should be based on a realistic business plan. A special attention should be given to check whether the unit is likely to become a market producer in a short period of time. In some cases, where the new unit is a merger of previous units, the results of previous periods can be used as an indication of future performance.

Recommendations

2.1: Add a sub-section to the FRS associated with the 2020 state budget in line with paragraph 43 in this report.

2.2: Review the sector classification of SOEs proposed by the mission and, if information or data suggesting any changes to it for the purpose of meeting the structural benchmark become available, in particular more accurate data on capital expenditure, consult with the IMF in the course of December 2019 – January 2020.

2.3: Ensure availability of data and relevant information on all SOEs to enable future examination of their sector classification, and on this basis apply the sectorization test every three years to all public entities based on the suggested practical application of the market/non-market test as described in Box 2.2., with the first comprehensive reassessment to be done as soon as all required data are available.

- 2.4:** Decide on the main option for treating SOEs that are classified as general government units in terms of legal status, financial accounting and reporting, disclosure in budget process, and treasury coverage, and develop a road map for implementing it.
- 2.5:** Complete the further work required to conclude whether MKR is a general government unit of Georgia, of Azerbaijan or of both jointly.

III. THE SIX LARGE SOES

A. Introduction

50. As highlighted in Section I, SOEs constitute a major part of Georgia’s PSBS, and as identified in Section II represent a key tool for government policy. Concerns around their performance and their reliance on budget funding is already leading to a shift of many of their assets and liabilities to the general government’s books—a realization of fiscal risks that will need to be communicated clearly.

51. However, this does not come as a surprise, as the government has been examining and analyzing the sector in its high quality FRS since 2016. The FRS provides historical financial information and forecast financials for the SOEs and in 2018 a quantitative assessment of financial exposure of the major SOEs to macroeconomic volatility (changes in GDP, the exchange rate and interest rates) was included.

52. This section complements that analysis, focusing on the big six SOEs that account for around two-thirds of the sector, and provides guidance for further improvements to the FRS. The SOEs covered are:

- **Engurhesi:** owns and operates the 1,300MW Enguri dam, water reservoir and related facilities. The dam accounts for around 40 percent of the country’s generation. With part of its facilities in territory controlled by the Abkhazian administration, the company provides around 40 percent of its output to Abkhazia free of charge and sells the rest of its output at prices well below market, and has achieved an average RoE over the last seven years of negative 2 percent p.a.
- **Georgian Oil and Gas Company (GOGC):** purchases and sells gas from Azerbaijan, under a government-to-government agreement, to the Georgian residential and commercial customers. The company also owns and operates a 230MW thermal power station (Gardabani 1), with a second unit due to be online by the end of the year. Despite having a role in providing gas to the social sector and being required to undertake major government-induced investments, GOGC has been consistently profitable and is financially stable, achieving an average RoE over the last seven years of 14 percent p.a.

- **Georgian Railway (GR):** owns and operates the rail network in Georgia. The company's main assets are land, rail, rolling stock and a truck fleet, a logistics terminal and a freight-forwarding business. Freight accounts for 95 percent of the company's revenue, with around 60 percent of the freight being international transit freight. Freight volumes have declined by a half over the last six years, leading to a major asset write-down in 2018 equivalent to 2 percent of GDP. Under the current agreement, Georgia Rail is supposed to own 50 percent of the MKR operating JV once construction is finished. GR's future as an independent and successful commercial entity is unclear, especially if it assumes 50 percent of MKR.
- **Georgian State Electrosystem (GSE):** provides electricity transmission and dispatch¹⁴ services. The company is investing in a range of new projects to improve security of supply and to increase capacity. It has been in bankruptcy regime for a number of years but has recently received regulatory approvals which may enable it to become profitable on a sustainable basis. It is likely that the company will be recapitalized, which will enable it to exit bankruptcy and become an independent and successful commercial entity.
- **Marabda-Katsakhi Rail (MKR):** is constructing a railway line and associated terminals from Marabda to Katsakhi. The line will be 200km long and provide a more efficient link between Azerbaijan and Turkey. The line is projected to be completed by the end of 2020, although when construction commenced in 2011 it was expected to be finished by 2013. The company's liabilities are currently well in excess of its assets; both are supposed to be transferred to an operating JV after the construction is complete.
- **United Water Supply Company (UWS):** provides drinking water and wastewater services in parts of the country outside Tbilisi. Approximately 40 percent of the company's 335,000 customers are unmetered, and the company has high water losses (of up to 75 percent). As mentioned in section II above, it has consistently made losses and required equity injections from the government. The company has made losses in every one of the last seven years and has required regular equity injections from the government to keep it afloat.

B. Recent Financial Performance

53. The six large SOEs experienced a significant deterioration in their financial performance on average over the last two years. The materialization of their downside risks is reflected in the deterioration of their average Return on Assets from 3.8 percent in 2016 to negative 4.8 percent in 2018.¹⁵

¹⁴ Dispatch is the continuous adjustment by the system operator of the output of the plants to meet demand.

¹⁵ Return on Assets (RoA) is calculated as EBIT/Average Total Assets. Return on Equity is calculated as NPAT/Average Equity. The financial numbers and calculations in this section are based on standard IFRS accounting standards and the audited financial statements of the SOEs. RoA is calculated post-asset write-downs and RoE is post asset-write-downs and post-currency depreciation effects. EBITDA/Assets reflects operating performance only.

54. The companies saw their average leverage¹⁶ increase to 88 percent in 2018, the highest level in the last seven years. This severe undercapitalization means that most of the SOEs have little capacity to absorb further materialization of the downside risks they face. The level of recapitalization required to restore adequate levels of equity (assumed to be 40 percent debt/total liabilities) could be, on end-2018 figures, around 7 percent of GDP.¹⁷

55. Much of the recent financial deterioration resulted from asset write-downs, reflecting a permanent downgrade in expected future revenue generation. In the near future, a substantial materialization of fiscal risks appears likely in order to recapitalize GSE and UWS, and MK Rail’s assets could be heavily impaired.

Figure 3.1. Aggregate ROA and EBITDA/Assets 2012–22

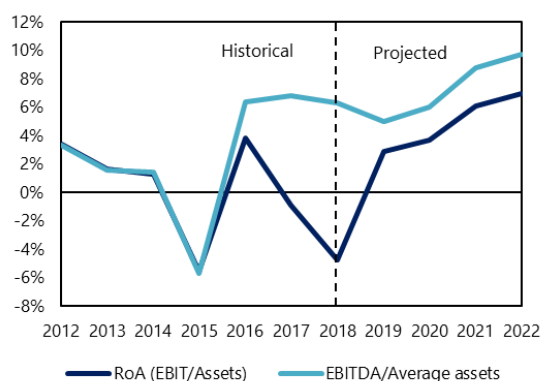
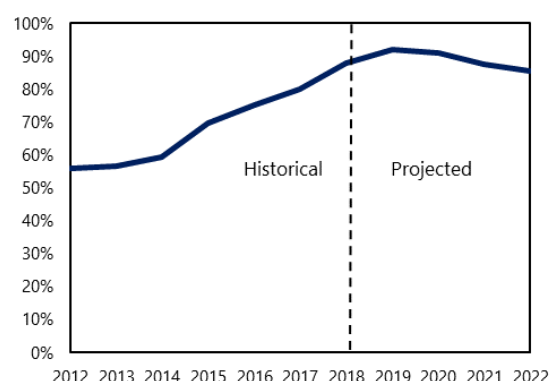


Figure 3.2. Aggregate Leverage (D/(D+E)) 2012–22



Source: Company financial statements, IMF staff estimates

56. The major factor accounting for the poor aggregate performance in 2018 was the 2 percent of GDP asset write-down by Georgia Rail. This GEL691m write-down reflects an assessment that the decline in traffic volumes is likely to be permanent. It follows near total write-off of the GEL400m Tblisi bypass) in 2017 following the new government’s decision to halt the project and asset write-downs by GSE’s subsidiary Energotrans (GEL250m in 2017) and UWS (GEL200m restated back to 2015).¹⁸

57. At the underlying (operating) level GOGC, Georgian Rail and GSE are delivering strong and reasonably stable cashflows but UWS is not covering its operating expenses and MKR has yet to generate any revenue. Engurhesi is delivering positive returns at the operating level. It should be noted that these operating (i.e. cash) returns do not include a return

¹⁶ Leverage is measured as total liabilities/(total liabilities plus total equity). For simplicity leverage is referred to as d/(d+e).

¹⁷ Includes as a working assumption allowance for 50 percent of MKR debt.

¹⁸ The Energotrans write-down is likely to be reversed in 2021 following a recent regulatory decision. The UWS write-down reflected a reassessment of future expected net revenues in the five yearly asset revaluation. Further write-downs may well occur for UWS at the next revaluation in 2023.

of capital (i.e. depreciation) or a return on capital (i.e. interest and return on equity). Of the six major SOEs, only GOGC is generating returns that are close to covering its cost of capital and therefore adding economic value.

58. The aggregate financial metrics for the six large SOEs are presented in Table 3.1. below. The table provides both historical data (back to 2012) and company projections to 2022.

59. Aggregate net worth of the six large SOEs has declined from around GEL2.8b to under GEL1b over the last 6 years. While liquidity¹⁹ improved in 2018, the SOEs' average interest coverage ratio is projected to decline to only 2.2 times in 2020, meaning the SOEs have only limited headroom in terms of covering their interest obligations through their operating cash flows.

Table 3.1. Georgia: Aggregate Financial Metrics, 2012–22

Aggregate Financial Metrics	2012	2013	2014	2015	2016	2017	2018	Projected			
								2019	2020	2021	2022
Revenue (Lari, M)	1,013	1,055	1,135	1,350	1,374	1,370	1,389	1,454	1,823	2,041	2,138
EBITDA (Lari, M)	215	111	109	-465	538	546	528	538	546	528	465
Total assets (Lari, M)	6,239	6,595	7,171	7,797	8,513	8,248	7,845	8,513	8,248	7,845	8,839
Net worth (Lari, M)	2,751	2,851	2,913	2,367	2,109	1,666	951	703	872	1,077	1,362
RoA (EBIT/Assets)	3.4%	1.7%	1.3%	-5.6%	3.8%	-0.9%	-4.8%	2.9%	3.7%	6.1%	6.9%
RoE (NPAT/Equity)	5.5%	1.0%	0.4%	-25%	-11%	-40%	-76%	-22%	9%	21%	27%
EBITDA/Average assets	3.3%	1.6%	1.5%	-5.7%	6.4%	6.8%	6.3%	5.0%	6.0%	8.8%	9.8%
Capital structure (D/(D+E))	56%	57%	59%	70%	75%	80%	88%	92%	91%	88%	85%
Liquidity (EBITDA/interest)	n/a	n/a	n/a	n/a	9.9	2.7	6.1	4.4	2.2	2.7	3.6

Source: Company financial statements, IMF staff estimates

C. Projected Financial Performance

60. The companies generally project their financial performance to improve over the next few years, with aggregate ROA projected to increase to 6.9 percent by 2022. However, this outlook for the SOEs is optimistic. The companies as a group are projecting their average revenues to grow at an annual average rate of 12 percent., 50 per cent higher than the projected rate of growth of nominal GDP. In some cases this is warranted, for example GOGC will commission the Gardabani 2 thermal powerplant, that will increase revenues significantly.²⁰ However, overall, the SOEs' aggregate projected growth revenue growth of 12 percent stands in

¹⁹ Liquidity is measured by interest coverage: the ratio of EBTIDA to net interest expense (excluding gains and losses on foreign exchange movements).

²⁰ Though this revenue stream itself is underpinned by a PPA minimum revenue guarantee and subsidized gas input prices.

stark contrast with the 1 percent growth achieved over the last two years, and is worthy of further examination.

61. Leverage ratios are uncomfortably high and expected to increase further. Even with the optimistic revenue projections, the companies' average leverage is expected to stay above 80 percent throughout the forecast period. This leaves the companies highly exposed to adverse shocks, as discussed below.

62. Further asset write-downs are likely, at least for MK Rail, which had net worth of negative GEL668m at the end of 2018. With assets exceeding liabilities, continued delays in completion of the project, problems during the testing (with reports of lower than anticipated speeds, that will have a major impact on throughput volumes, as well as concerns around carrying oil and oil products), and declining rail traffic volumes in other parts of the network, a major write-down at MK Rail seems likely. Further write-downs may also occur at UWS and Georgia Rail if their forecast revenue growth does not materialize.

63. The leverage should be brought back to sustainable levels. The financial projections as such do not constitute a viable scenario. There has to be restructuring or recapitalization within the projection period. For this individual company cases should be examined. The greatest priority for recapitalization are MKR, GSE and UWS, all of which have negative worth, while Georgia Rail may also require some form of assistance, and certainly will if it is to assume 50 percent of MKR.

D. Fiscal Risks Statement

64. The publication by the Georgian government of the Fiscal Risks Statement (FRS) has considerably improved the transparency of the government's finances and the awareness of the risks arising from the SOE sector. The FRS was first produced and published in 2015, with a focus first on the macroeconomic environment. Over time the FRS has developed and been enhanced. In 2016 financial information on the SOEs was first included and in 2018 a quantitative risk assessment of the major SOEs was added. The 2019 FRS associated with the 2020 draft Budget will include discussion on PPPs, SOE's balance sheets, sectorization and updated risk analysis for the major SOEs.

65. The reporting of the major fiscal risks in the FRS has now reached a high standard and the priority now is to improve the management of the risks as discussed below. Nevertheless, the 2020 FRS (associated with the draft 2021 Budget) could be improved further at relatively low additional cost by the Ministry of Finance:

- Expanding the risk analysis coverage to include Georgia Post, Tbilisi Transport, Union of Georgian Airports and Mountain Resorts Development so all the top ten SOEs are included in the 2020 FRS;

- Aligning the risk scenario assumptions across all its risk analysis, including the DSA, macroeconomic scenarios and SOE analysis. This does not preclude additional scenario analysis, but there should be at least one common scenario across the products;
- Providing base-case assumptions to SOEs on GDP, inflation and forex so a consistent approach is adopted across the SOEs in the preparation of their financial forecasts; and
- Including a detailed and comprehensive assessment of the gross financing requirements of the SOEs over the next three years.

66. The FRS could also include more estimates of the value of the quasi-fiscal activities (QFAs) carried out by the major SOEs on behalf of the government. The FRS accompanying the 2020 draft state budget discloses two QFAs: Enguri’s provision of free electricity to Abkhazia and GOGC’s provision of below-market-price gas. Other QFAs may include the provision of subsidized employment by Georgia Rail (whose staff numbers have remained static despite traffic volumes halving) and Enguri’s supply of electricity to areas outside Abkhazia at below-market prices. The FRS states the MoF will collect information on QFAs and develop an action plan. The current approach of asking the SOEs does not appear to be working well. In our view the MoF needs to develop a comprehensive methodology for identifying and assessing QFAs as discussed.²¹

67. Overall, the SOEs have been a significant fiscal drain on the government over the last five years, adding 6 percent of GDP to GG expenditures. These have been in the form of GEL1.3b capital injections and GEL1.1b of on lending (Table 3.2.) On the other hand, the SOEs in whole have paid little or no dividends by way of return on the governments GEL4.6b equity investment.

Table 3.2. Net Financial Flows from the Government to the SOEs

Net Flows from Government to SOEs (GEL M)						
	2014	2015	2016	2017	2018	Total 2014-18
Capital Injections	166	232	210	596	143	1,347
Net lending	144	258	311	148	279	1,139
Subsidies	5	12	15	34	25	91
less Dividends	0	0	1	1	0	3
Total Net Flows to SOEs	314	501	535	777	446	2,574

Source: MoF

Table 3.3. Net Financial Exposures of the Large SOEs to the Exchange Rate

Impact of 30 % Depreciation of Lari	
	GEL M
Engurhesi	-53
Georgia Rail	-348
GOGC	-148
GSE	-472
MK Rail (50%)	-390
UWS	-410
Total	-1,821

²¹ For example, see <https://www.imf.org/external/np/pp/eng/2016/050416.pdf>

E. Financial Risks

68. The major financial risks facing the SOEs include:

- **Forex risks:** with most of their debt denominated in foreign currencies the major SOEs are heavily exposed to further depreciations of the Lari. We estimate that a 30 percent depreciation (equivalent to the 2015 depreciation) would reduce the major SOEs' net worth by around 4 percent of GDP. The above estimates incorporate both the net operating and net financing currency exposures of the major SOEs. The most affected SOEs are GSE, UWS, MK Rail and Georgia Rail. GOGC's operating position provides it with a partial hedge, while Engurhesi has relatively low levels of debt.
- **Valuation risks:** as discussed above, there are significant downside risks to the valuation of the assets MK Rail Georgian Rail and UWS in particular. There are also some upside risks to the value of the SOEs' assets (for example, if Enguri and GOGC are able to move to price their output fully at market prices);
- **Political risks:** the SOEs may come under pressure to further subsidize their prices (eg GOGC and GSE), to provide employment (especially Georgia Rail) and to undertake non-commercial investments.
- **Refinancing risks:** The major SOEs have considerable refinancing and new financing requirements, totaling around GEL7.6b (18 percent of GDP) over the next three years (Table 3.4). Around 45 percent of the funds are expected to be raised directly from the private sector and the rest through the central government.

69. The MEFP resulting from the Fifth Review of the EFF commits the authorities to develop a comprehensive strategy to address financial vulnerabilities and improve corporate governance in SOEs. This is expected to result in a new SOE Law, that could be approved by parliament in 2021. This law should assist the government to take opportunities to take difficult choices (e.g. privatize and shift prices to market levels), reduce risks (particularly by reducing leverage and forex exposure) and improve governance.

Table 3.4. Georgia: Gross Financing Requirements of the Large SOEs

Gross Financing Requirements of the Major SOEs													
	Principal Outstanding	Loans Outstanding			Refinancing Requirements			New Financing Requirements			Gross Financing Requirements		
		Maturity	Type	Coupon	GEL M			GEL M			GEL M		
					2020	2021	2022	2020	2021	2022	2020	2021	2022
Engurhesi	GEL100M	10yr			10	10	10				30	10	32
GOGC	USD250m Eurobond	2021	Bullet payment	6.75% current; 3.5% new	750			240	0	22	990	0	0
	Euro150M KfW (planned dra	2037	Bullet payment	Eurobor plus 0.9%				99		495	99	0	495
	USD100m EIB (not signed)	2037	Bullet payment	Eurobor plus 0.9%						300	0	0	300
G Rail	USD500m Eurobond	2022	Bullet payment	7.0%		750	750				0	750	750
	USD46M CSFB	2026	Amortize 10 yr	6M libor + 1.25%.									
GSE	UD100M from EBRD	2025	Amortize 10 yr		Plans to refinance into GEL			198	330	330	198	330	330
	Euro68M from EBRD	2030	Grace period 10 yr										
	Euro100M from KfW	2019+25	Grace period 5 yr										
	Euro125M from KfW	2018+20	Grace period 3 yr										
	Energotrans	2025	Grace period 3 yr										
MK Rail	GEL2,415M from Azerb MoT				2,415						2,415		
UWS	GEL1,150M	10yr			115	115	115	222	319	0	337	434	115
Total					3,290	875	875	779	649	1,147	4,069	1,524	2,022

Source: Company financial estimates

Recommendations

3.1: Finalize and approve an SOE governance law by mid 2021.;

3.2: Include an estimate in the 2019 FRS of the gross financing requirements of the six big SOEs based on Table 3.4 in this report.

3.3: 2020 FRS:

- Expand the SOE financial risk analysis to include Georgia Post, Tbilisi Transport, Union of Georgian Airports and Mountain Resorts Development so the top 10 SOEs are included;
- Align the DSA assumptions for the SOE financial risk analysis so a consistent approach is taken in the FRS and include SOE-specific risks as appropriate;
- Provide base-case assumptions for GDP growth, inflation and forex rates to the SOEs so a consistent approach is adopted across the SOEs;
- Develop a comprehensive methodology for identifying and assessing QFAs; and
- Include a detailed and comprehensive assessment of the gross financing requirements of the major SOEs for the next three years.

3.4: Explore the options available to bring the leverage of the major SOEs (including possible recapitalisation or restructurings) back to reasonable levels and investigate the need to include any recapitalisations in the fiscal envelopes.

IV. ACCOUNTING AND REPORTING REFORM

A. Introduction and Background

70. The reliability of a consolidated Public Sector Balance Sheet depends on the underlying accounting and reporting standards. The rigorous application of internationally accepted standards ensures integrity of data and comparability with other countries. The balance sheets of the Georgian National Bank and major SOEs are currently prepared using International Financial Reporting Standards (IFRS), the international-accepted standards for the private sector. The main weakness is the Government's own financial statements, which are aggregated rather than consolidated and are prepared using the national accounting standards that have large gaps, such as completeness and valuation of infrastructure assets. The Government is in the process of reforming the accounting and reporting framework for the entities it controls aiming at aligning it with IPSASs.

71. Upon independence in 1991, Georgia inherited the accrual accounting and reporting framework for budget organizations of the USSR introduced in 1987. The accounting standards were far from current IPSASs in many respects, including the format of the balance sheet. Georgia, like other successor countries of the USSR, established a centralized treasury system in the 1990s with the assistance of FAD. The objective was to gain better control

and reporting of fiscal flows and thereby better control of the money supply in what was a hyperinflationary environment. As a result, two accounting systems were effectively maintained: a cash basis centralized budget accounting system run by the treasuries, and an accrual basis decentralized financial accounting system run by budget organizations separately although subject to an accounting and reporting framework defined by the MoF and derived from USSR Instruction No. 61 of March 10, 1987.

72. The authorities first expressed a desired to bring financial accounting and reporting in the government sector into compliance with IPSASs in 2004. FAD subsequently provided advice in drafting an accounting reform strategy. However, the first effort to introduce IPSASs was not made up until 2014. The economic classification of *GFSM 2001* was incorporated in the budget classification and used for budget accounting, following which the chart of accounts for financial accounting was revised to include most parts of the economic classification of *GFSM 2001*; this brought the budget and financial accounting and reporting frameworks together. Thus, there was practically no progress towards the IPSAS implementation up until 2014, and the financial accounting was guided by the principles of *GFSM 2001*.

73. The authorities' accounting reform strategy was adopted in 2014 as part of the broader PFM reform strategy 2014–17. The aim of the accounting reform was to comply with IPSASs by 2020. The Treasury introduced the first IPSAS-based accounting and reporting instructions in 2015 in line with the timetable. It covered the provisions of three IPSASs, performed the role of national public sector accounting standards and included a chart of accounts based on the *GFSM 2001* economic classification. Since then, the Treasury has been increasing the coverage of the IPSAS provisions in the Instructions, aiming at the full compliance with IPSASs, i.e. all provisions of all IPSASs, for the 2020 financial year. Table 4.1. sets out the timetable of the introduction of IPSASs approved in the PFM Strategy.

74. The implementation of the original timetable, set out in Table 4.1, is lagging behind. Selected paragraphs from IPSASs that were planned to be implemented in 2017 have been included in the current accounting and reporting regulations. The decision of the selection of the specific provisions was made by the Treasury on the basis of their relevance and the existing capacity to implement by the government organizations. Thus, the current national standards are far from being in full compliance with the respective IPSASs, as full compliance means that all IPSAS provisions on recognition, measurement, and disclosure are implemented.

**Table 4.1. Georgia: Original Timetable for Introduction of IPSASs
(2014 PFM Reform Strategy)**

IPSAS	to 2015	2016	2017	2018	2019	2020
IPSAS 1 Presentation of Financial Statements			X			
IPSAS 2 Cash Flow Statements	X					
IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors	X					
IPSAS 4 The Effects of Changes in Foreign Exchange Rates	X					
IPSAS 5 Borrowing Costs			X			
IPSAS 6 Consolidated and Separate Financial Statements	X					
IPSAS 7 Investments in Associates						
IPSAS 8 Interests in Joint Ventures						
IPSAS 9 Revenue from Exchange Transactions			X			
IPSAS 10 Financial Reporting in Hyperinflationary Economies						X
IPSAS 11 Construction Contracts						X
IPSAS 12 Inventories					X	
IPSAS 13 Leases		X				
IPSAS 14 Events After the Reporting Date			X			
IPSAS 15 Financial Instruments: Disclosure and Presentation (superseded by IPSAS 28 and IPSAS 30)						
IPSAS 16 Investment Property			X			
IPSAS 17 Property, Plant and Equipment					X	
IPSAS 18 Segment Reporting						X
IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets		X				
IPSAS 20 Related Party Disclosures						X
IPSAS 21 Impairment of Non-Cash-Generating Assets					X	
IPSAS 22 Disclosure of Financial Information About the General Government Sector		X				
IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)		X				
IPSAS 24 Presentation of Budget Information in Financial Statements		X				
IPSAS 25 Employee Benefits (it will be replaced by IPSAS 39 from January 1, 2018)						
IPSAS 26 Impairment of Cash-Generating Assets					X	
IPSAS 27 Agriculture						X
IPSAS 28 Financial Instruments: Presentation				X		
IPSAS 29 Financial Instruments: Recognition and Measurement				X		
IPSAS 30 Financial Instruments: Disclosures				X		
IPSAS 31 Intangible Assets					X	
IPSAS 32 Service Concession Arrangements: Grantor					X	
IPSAS 33 First-time Adoption of Accrual Basis IPSAS				X		
IPSAS 34 Separate Financial Statements						X
IPSAS 35 Consolidated Financial Statements						X
IPSAS 36 Investments in Associates and Joint Ventures			X			
IPSAS 37 Joint Arrangements			X			
IPSAS 38 Disclosure of Interests in Other Entities						X
IPSAS 39 Employee Benefits				X		
IPSAS 40 Public Sector Combinations						X

1/ IPSASs in bold are defined as most relevant for Georgia at current stage of PFM reform

75. The ultimate goal of the accounting and reporting reform is to produce consolidated financial statements of central government in line with IPSASs. This goal is reiterated in the commitment made in the MEFP to achieve this for the 2020 year. In order to do so, a complete framework is required, which defines:

- the accounting and reporting standards (recognition criteria);
- a chart of accounts designed to reflect the requirements of those standards; and
- formats of separate and consolidated financial statements and disclosure notes.

76. Consolidated financial statements are currently prepared at the level of individual Line Ministries (LMs). Although local accounting software is widely used by budget organizations and their supervising LMs, the mission did not verify the extent to which the consolidation to LM level is automated. However, experience in other countries suggests that this is likely to be the case wherever local accounting software is used. On the other hand, the consolidation to whole-of-central government-level by the Treasury has not, hitherto, been automated, and transactions between LMs and their mutual balances have not been fully eliminated on consolidation. Thus, it is more accurate to call the whole-of-central government financial statements an aggregation of the consolidated financial statements of LMs.

77. Currently the State Audit Office (SAO) does not audit the whole-of-government consolidated financial statements. There is no legal requirement for it to do so, and no requirement for Parliament to receive the audited statements. The SAO does audit the consolidated financial statements of many individual LMs; however, the SAO is at an early stage of developing its capacity to perform financial audits and so their fair presentation opinions on the LM financial statements are based on a less rigorous audit process than will be the case when its capacity is fully developed. In addition, the SAO currently receives only the final financial statements, so that LMs do not have the opportunity to take the SAO's comments into account in finalizing them, which is best international auditing practice.

78. One of the biggest challenges in preparing the financial statements has been the valuation and recognition of non-financial assets. In Georgia, as well as in many other former USSR countries, the LMs have difficulties in identifying the complete list of non-financial assets they own and to perform their valuation for recognition in the financial statements.

79. FAD assistance to the MoF on the implementation of the reform began in 2014. This has involved periodic reviews of the accounting and reporting instructions, training of Treasury staff on various IPSASs and, most recently, advice on the revision of the Chart of Accounts.

B. Current Status of the Reform

80. The accounting and reporting reform have proved to be more demanding than originally expected by the authorities. Following the advice from FAD, the authorities decided

not to attempt full compliance with IPSASs in their 2020 financial statements. Instead, the accounting and reporting framework will include the most important provisions of most relevant IPSASs. The most relevant IPSASs are bolded in Table 4.1, and are currently at varied stages of implementation (which are generally lagged from the original timetable). The consolidated central government financial statements will therefore be prepared in line with the most important provisions of the most relevant IPSASs. This step alone will be a major step forward for Georgia's PFM system.

81. The accounting and reporting framework for the consolidated financial statements of the central government will consist of three separate instructions. Two of these instructions, the Recognition and Disclosure Instructions and the Chart of Accounts and Instruction on its Application, should be approved before 1 January 2020. The third instruction, the Instructions on Preparation of Financial Statements will be finalized in the course of 2020.

82. The Recognition and Disclosure Instructions will define the most important parts of the most relevant IPSASs, but time is running short to complete this before the standards being to apply on January 1. They will also set the centrally defined accounting policies to be applied by all entities where the IPSASs allow alternative treatments. The 2018 version of the relevant IPSASs will be annexed to the Instruction. FAD has provided specific recommendations on the selection of the most important provisions of the most important IPSASs as part of its June 2019 follow-up mission report. The FAD September 2019 follow-up mission report includes the list of recommended most relevant IPSASs, provisions of which should be introduced in 2020. The authorities have yet to finalize the Recognition and Disclosure Instruction and send for comments to stakeholders (principally, budget organizations and the SAO) before approving it for application from January 1, 2020.

83. A revised Chart of Accounts developed with the assistance of FAD embeds the necessary accounts to allow reporting in line with the required parts of relevant IPSASs, as well as the GFSM 2014 economic classification. The Chart of Accounts has been finalized and is ready for introduction from January 2020. The Treasury, however, is still working on the Instructions on its Application and has yet to incorporate the recommendations of FAD June 2019 follow-up mission report.

84. The revised Chart of Accounts enables recognition of the administered items, such as government debt and tax revenue, in the general ledger of the government entities. Administered items are those that are administered by LMs on behalf of the government, rather than their "own" items. Australia and New Zealand are two countries in which the separate financial statements of LMs distinguish between "own" and administered items. LMs in Georgia currently report solely on their "own" assets and liabilities, revenues and expenses, and not on items administered on behalf of the state. Thus, the MoF does not currently include the government debt in its financial statements, nor does the Revenue service include tax revenues in its financial statements. The revised Chart of Accounts is set up to allow this.

85. Most importantly, the revised Chart of Accounts sets the structure for accounting of the transactions between the Treasury and the government entities. Treasury stocks and flows will need to be recognized differently from at present, according to the substance of control. Thus, the TSA should be recognized on the Treasury's statement of financial position because it is controlled by the Treasury. As a result, instead of as sub-accounts of the TSA, the assets of the Revenue Service and budget organizations at the Treasury should be recognized as accounts receivable. Thus, budget organizations should complete their accounting for transactions by crediting accounts receivable instead of cash and, therefore, recognize the balances in their accounts at the Treasury as balances of accounts receivable.

86. The correct application of the revised Chart of Accounts will subsequently allow preparation of the consolidated financial statements of the central government using only the financial statements of the government entities. This is the correct method of consolidation as it enables necessary consistency checks. This has not been the case so far, as the items administered on behalf of the government were not recognized in the financial statements of the government entities and had to be added in the process of consolidation on an ad hoc basis. The Instructions on the Application of the Chart of Accounts are still being prepared, these should then be used to introduce modifications to the various stand-alone accounting systems of the BOs. The authorities advised that the draft Chart of Accounts and the Instructions on its Application have already been shared with the LMs, so that they start configuring their accounting software as soon as possible. The authorities are confident that the LMs will have their systems ready by January 2020.

87. The Instructions on the Preparation of Financial Statements will define the formats of the financial statements and of the disclosure notes. The FAD mission in September 2019 has proposed draft formats for the financial statements and the most important disclosure notes in line with IPSASs. The authorities plan to consider the FAD mission recommendations while developing Instructions on Preparation of Financial Statements in the course of 2020. The authorities are not under pressure to finalize those, as the financial statements for the year 2020 will be prepared in 2021.

88. LMs and budget organizations use different stand-alone local accounting systems supplemented by additional spreadsheets for financial accounting and reporting. An e-Treasury System developed by the Financial Analytical Service of the MoF is used for budget management and is linked electronically to the National Bank of Georgia which hosts the Treasury Single Account. The local accounting systems are not integrated with the e-Treasury. The agencies record the budget execution and financial accounting related transactions twice—in the e-Treasury for payment processing and budgetary accounting, and in the local accounting systems for financial accounting. The authorities are pursuing the creation of an integrated in-house FMIS based on e-Treasury, which will also have the functionality of financial accounting and reporting on accrual basis. Some system modules have been developed, nevertheless the completion of the system is not feasible in the short-run due to capacity issues.

89. Local governments have not yet been included in the rollout of IPSASs, but will begin piloting selected IPSASs provisions in 2020. Local governments have not yet introduced any IPSAS provisions and carry out their accounting and reporting using the framework existed before 2015. The municipalities are set to pilot the chart of accounts and the accounting regulations that is currently used by central government entities from January 1, 2020. The pilot framework will run in parallel with their current framework, thus 73 municipalities and their subordinated units will prepare two sets of financial statements for 2020.

C. Immediate Steps for the Reform Progress

90. The authorities have yet to finalize the Recognition and Disclosure Instructions to be introduced from January 2020. At the time of the mission, the authorities had yet to finalize defining the most important provisions of the most relevant IPSASs. The Treasury has changed its approach to reflecting IPSAS requirements in the Recognition and Disclosure Instructions. The draft version of the Recognition and Disclosure Instructions, on which FAD had provided detailed recommendations in June 2019, contained the actual text of most important paragraphs of most relevant IPSAS.

91. The new approach is that the Instructions do not contain IPSAS text, but only define the accounting policies where IPSASs allows alternative treatments. The users will have to use the actual relevant 2018 version of IPSASs excluding the paragraphs defined in the Instructions. The latest available Georgian translation of IPSASs at the time of the mission was for 2012 IPSAS Handbook. Currently the translation of the IPSASs relevant for the new Instructions is ongoing with the help of GIZ and is planned to be finished by end-2019. The existence of the Georgian language IPSASs are imperative for the implementation of the Recognition and Disclosure Instructions from January 2020.

92. The Instructions on the Application of the Chart of Accounts should include illustrative double entries. The new draft Chart of Accounts is conceptually different from the one applied currently in central government. Introduction of new elements such as items administered on behalf of the state and treasury stocks and flows will need to be explained by including illustrative double entries. This will substantially reduce the risk of human error. The June 2019 FAD mission report contains illustrative double entries for both the BOs and the Treasury for tax revenues, own revenues and salaries.

93. Training of public sector accountants in application of the new Recognition and Disclosure Instructions and of the Chart of Accounts has yet to begin. Although the Treasury Accounting Methodology Department is providing on-going training for accountants, the revised financial accounting framework and, in particular, the Chart of Accounts will require additional efforts in capacity building at the level of government entities. The World Bank expressed willingness to provide training to the government accountants throughout 2020.

Box 4.1. Illustrative Double Entries for Government Debt

Accounting for a loan taken by the MoF (GEL 1,000)

Books of the MoF

Dr 1-13-1200 Budget Organization Receivables from Treasury

Cr 2-22-1100 Non-current Credits and Loans in Lari

Books of the Treasury

Dr 1-11-2100 Treasury Single Account in Lari

Cr 2-13-1300 Payables to Budget Organizations by Treasury

Statement of Financial Position

	MoF	Treasury	Consolidated
Assets			
Treasury Single Account	-	1,000	1,000
Receivables from the Treasury	1,000	-	eliminated
Liabilities			
Payables to budget organizations		(1,000)	eliminated
Non-current loans and credits	(1,000)		(1,000)

94. An IT module for automating the consolidation of financial statements at the whole-of-central government level is yet to be developed. The World Bank has offered to provide technical assistance for this purpose. The two options being discussed are a) the enhancement of the e-Treasury System; and b) implementation of a stand-alone consolidation module integrated with the e-Treasury. The World Bank recommendation is to implement a stand-alone consolidation module. The authorities have not yet made a final decision. It would be preferable that the decision is made and the consolidation module is ready by the time that the financial statements are set to be consolidated in 2021.

95. The consolidated financial statements should be audited by the SAO. This is necessary for their credibility as well as to provide appropriate incentives for the preparers to keep improving their quality. The financial accounting and reporting framework to be introduced from January 2020 constitutes a fair presentation framework, therefore SAO should be able to carry out financial audit of the consolidated financial statements prepared on that basis. An audit of the first consolidated financial statements will most probably result in a number of qualifications. International experience shows that it takes many years for the combined efforts of the government and of the auditors to reach the stage, where the annual consolidated financial statements are free from material misstatements. This also underlines the desirability of maximizing co-operation between the MoF and the SAO, including the submission of draft consolidated financial statements to the SAO and the MoF incorporating its comments in their final version.

96. Legislation should require consolidated financial statements of the central government to be audited and then presented to Parliament. Currently the Budget Code does not require presentation of consolidated financial statements to the Parliament, nor does the Law on State Audit require their audit. A legal amendment would create a strong incentive to succeed in the government financial accounting reform. It is, however, important to raise awareness among Parliament members and the wider audience that achieving a 'true and fair view' in the government consolidated financial statements is a lengthy, as well as costly, process. In the first few years, the legislation should allow ample time for budget organizations, LMs, the MoF and the SAO to do their work; a deadline of November 30 should be reasonable until the quality of the financial statements had stabilized some years' hence, at which point the deadline could be moved forward, perhaps eventually to June 30.

**Box 4.2. International Organization for Supreme Audit Institutions (INTOSAI)
Financial Audit and Accounting Subcommittee (FAAS)
Explanation of Fair Presentation Framework**

A **fair presentation** accounting framework is a rules-based or principles-based cash basis or accrual basis accounting framework that requires compliance with the requirements of the framework but that also acknowledges explicitly or implicitly that to achieve fair presentation of the financial statements it may be necessary to provide disclosures beyond those required by the framework. Fair presentation is also commonly described as a "true and fair view" which means the economic activities of the reporting entity are faithfully represented in the financial statements. Examples of fair presentation accounting frameworks include the [International Financial Reporting Standards \(IFRSs\)](#) and the [International Public Sector Accounting Standards \(IPSASs\)](#).

D. Way Forward

97. The financial accounting reform will still require attention beyond preparation of the first consolidated financial statements in 2021. Many of the issues will require technical as well as financial capacity to be resolved. The biggest issues include:

- Stocktaking and valuation of non-financial assets. While the newly constructed assets are normally recognized in the financial statements of the government entities, the assets inherited from the USSR and immediate post-USSR periods are mostly undervalued or are not presented in any balance sheet at all. Creation of an asset register will solve the issue of identification of assets and clarification of their ownership. The government should consider the options for valuation of non-financial assets, and, in particular, of infrastructure assets which might require professional expertise and substantial financial resources.
- Completion of the IT system for financial accounting and reporting. The development of the Financial Management Information System (FMIS) has reached a stage, where the authorities should make a decision on whether to continue developing it to integrate the financial

accounting and reporting of the BOs on accrual basis or have standalone systems interfaced with the Treasury FMIS.

98. A roadmap succeeding the plan in Table 4.1 will be developed once the current stage of the reform is well advanced. At present the resources of the MoF are fully consumed in implementation of the new financial accounting framework in 2020.

E. Accounting Reform Risks

99. There are serious risks to the application of IPSAS standards for the 2020 financial year. A delay in the translation and distribution of the Recognition and Disclosure Instructions, or the completion of the chart of account instructions could mean that the financial year begins without clear instructions to accountants. This raises the risk that initial transactions will not be recorded in line with the new framework, comprising the reliability of the accounts.

100. Even with the instructions completed prior to the beginning of the financial year, delays in training, IT systems or development of the financial statements could still cause problems. It is not sufficient to simply issue instructions and expect them to be followed correctly. Training on the new standards for government accountants will be required, and IT systems will need to be updated, without this, there is a high risk of incomplete or incorrect programming of double entries in the new CoA. The reliability of the 2020 financial statements will also depend on the completion and approval of the Instructions on Preparation of Financial Statements, as well as the automation of the consolidation module, which if not prepared will rely on ad hoc excel based adjustments.

101. The audit and reception of the 2020 financial statements also presents a risk. The audit arrangements are yet to be agreed, and there is a risk that 2020 financial statements will not be audited by the SAO. Gaps in the legislation to require preparation, audit and presentation of the whole-of-central-government consolidated financial statements need to be closed, and the capacity of the SAO to perform financial audit of the whole-of-central-government consolidated financial statements needs to be enhanced. Finally, there lack of awareness about the complexity of the accounting reform and the time needed to achieve fair presentation in the whole-of-central-government consolidated financial statements. Parliament and other stakeholders should be informed about the likelihood of substantial qualifications to the financial statements.

Recommendations

4.1: Finalize the Recognition and Disclosure Instructions reflecting the recommendations in the June 2019 FAD mission report, including:

- Translation of the relevant IPSAS into Georgian language;

- Defining the most important provisions of the most relevant IPSAS to be introduced from January 2020;
- A section requiring recognition of administered items by LMs.

4.2: Finalize the draft Instruction on the Application of the Chart of Accounts by introducing illustrative double entries as a minimum to reflect:

- Tax and customs revenue;
- Treasury Single Account;
- Transactions between Treasury and BOs;
- Government debt.

4.3: Include provision in the Budget Code and the Law on State Audit Office to require presentation of audited consolidated financial statements of the central government to Parliament.

Annex I. SOES Assessed as General Government Units

SOEs which do not operate like independent institutional units and/or provide services only to government:		
205170036	JSC ¹	ESCO Commercial Electricity System Operator
205140257	LLC	State Construction Company
404482537	LLC	State food company
401961445	LLC	Construction Company - Builder 2011
245548153	LLC	Sanitation
204524568	LLC	Melioration of Georgia
404391975	JSC	Georgian Energy Development Fund (parent)
204878542	LLC	Sportsmshenservices
404942470	LLC	Georgian Solid Waste Management Company
404924276	LLC	Perspective
404389372	LLC	State Service Bureau (parent)
237076524	LLC	Adam Beridze Diagnostic Center for Soil and Food
401960339	LLC	Georgian Food Company
211327410	LLC	Specialized Surveillance Center for Disinfection, Disinfection Deratization and Sterilization
405249075	LLC	Partnership Fund - Green Development
205064446	LLC	Sakspecetrans
405007200	LLC	Asset Management and Development Company
404404550	JSC	Partnership Fund (parent)
SOEs which do not provide goods and services at economically significant prices:		
404945164	LLC	Mental Health and Addiction Prevention Center
205165453	LLC	Academic Nikoloz Kipshidze Central University Clinic
215096367	LLC	Mountain Resorts Development Company
212153756	JSC	Scientific-Practical Center for AIDS and Clinical Immunology of Infectious Diseases
236035517	LLC	Regional Health Center
206348736	LLC	Mechanizatori
245445200	LLC	Batumi auto transport
209446900	LLC	Tbilisi Mental Health Center
212693762	LLC	Kutaisi Mental Health Center
212677566	LLC	Kutaisi Regional Blood Bank
217881175	LLC	Curtis Hospital
202054034	JSC	Boris Paichadze National Stadium
239866579	LLC	Senaki Interdisciplinary Psychoanerological Dispensary
202887126	JSC	N. Makhviladze Laboratory of Medicine and Ecology Scientific Research Institute
216296318	LLC	Kvemo Kartli Regional Blood Transfusion Station
223234426	LLC	Akhalgori District Polyclinic
206051449	LLC	Scientific-Practical Center of Clinical Pathology

¹ JSC = Joint Stock Company, LLC = Limited Liability Company

245426490	LLC	Batumi Emergency Medical Center
206269045	LLC	IDP Family Medicine Center
202054908	LLC	F. Sanikidze War Veterans Clinical Hospital
221273315	LLC	Geguti Polyclinic
202065807	LLC	Pathologoanatomical Scientific-Practical Center for Adult and Child Pathology
238750106	LLC	The future
404381165	LLC	Regional Hospital
405192795	LLC	Clinic Development Company (group, head office)
202172139	JSC	National Center for Tuberculosis and Lung Diseases
212693780	LLC	Kutaisi D. Nazarishvili Family Medicine Regional Training Center and Hospital
216296880	LLC	Rustavi Mental Health Center
227721383	LLC	Shida Kartli Primary Care Center
231171157	LLC	Telavi Psycho-Neurological Dispensary
212686477	LLC	Kutaisi Adult Polyclinic N5
211331389	LLC	Outpatient Medical Rehabilitation Center
206344062	LLC	Ponichala is a medical outpatient
404484704	LLC	Rukhi Trade Center
233642662	LLC	The neuron
231171148	LLC	Telavi Drug Center
204379074	LLC	Tbilisi Dental Polyclinic N1
404904458	LLC	Grain Logistics Company
202059388	LLC	Center for Social Rehabilitation of People with Disabilities
404928469	LLC	Georgian vegetables
230805117	LLC	Manglisi Hospital Polyclinic
227720883	JSC	Akhtala resort
202888269	LLC	Book
239866542	LLC	Senaki Children's Hospital
239866551	LLC	Ambulatory-polyclinic association
239865071	LLC	Senaki Hospital-Polyclinic Association
208146834	LLC	Adult Polyclinic N25 Tbilisi
204522515	LLC	Family Medicine Center – Abkhazia
239890668	LLC	IDP Polyclinic in Senaki
212153747	LLC	Vakhtang Bochorishvili Anti-Sepsis Center
245418392	LLC	St. Batumi Regional Center for Infectious Diseases, AIDS and Tuberculosis

245428880	LLC	St. Batumi Republican Clinical Hospital
245426392	LLC	St. Polyclinic №1 in Batumi
220395347	LLC	Zugdidi Polyclinic for Internally Displaced Persons from Abkhazia
202887787	LLC	City Blood Transfusion Station
231184232	LLC	Child Health Center
202051670	LLC	St. Tbilisi N3 Preventive Center
435892483	LLC	Mestia Hospital-Outpatient Association
223234435	LLC	Akhalgori Raisa Hospital
243123455	LLC	East Georgia Mental Health Center
212672080	LLC	O. Chkhobadze Disabled and Elderly Clinical Center
233646757	LLC	Guria Medical Center
239866588	JSC	Senaki District Hospital
243572594	LLC	Resort Tskaltubo Development Company
221268447	JSC	Sanatorium Railway
212697429	LLC	Kutaisi Regional Drug Center
204871594	LLC	Tbilisi Children's Infectious Disease Clinical Hospital
405001466	JSC	Universal Medical Center
SOEs which depend on the regular financial assistance from government:		
412670097	LLC	United Water Supply Company of Georgia
405158804	LLC	Black Sea Arena Georgia
446952511	LLC	Football club beacon
226560860	LLC	Gardening, Utilities and Landscaping Services
436034104	LLC	Mtskheta Sopotskali
425358409	LLC	Bolnisi Municipal Transport Service
239394259	LLC	Sachkhere water channel
234237607	LLC	Senaki Interdisciplinary Psychoanerological Dispensary
434158163	LLC	Marneuli village
246952524	LLC	Transport regulation of Kobuleti
225376189	LLC	LTD Football Club Sioni
437066201	LLC	Satis
244691259	LLC	Khobi Cleaning and Lighting
448382562	LLC	Khelvachauri Water Canal
426518388	LLC	Gardabani Transport Company
427716518	LLC	Amenities
SOEs owned by municipalities engaged in loss-making activities requiring government support but for which data were not available to conduct the market/non-market test.		
206267494	LLC	Tbiliservice Group
225370960	LLC	Communal farming

205060244	LLC	Muscaside Culture and Recreation Park
228544091	LLC	Service-2007
232556659	LLC	Kaspi amenities
231281109	LLC	Utility Service of Batumi Municipality
247009856	LLC	Kobuleti Water
205267085	LLC	Aquatic species center-tonus
441993407	LLC	Chokhatauri Road Division
435891830	LLC	Mestia Road
431171929	LLC	Infrastructure and Landscaping Service
215613192	LLC	Chiatura football club
200217684	LLC	Rose Revolution Park
245622205	LLC	Dinamo Batumi
419983432	LLC	ANAKLIA-GANMUKHURI RESORTS
245626684	LLC	Hygiene 2009
432542395	LLC	Rural Water
434065726	LLC	Road 2015
219630228	LLC	Football club miner
445384628	LLC	Volleyball Club Batumi
238771432	LLC	Sports Complex – Samtredia
445384691	LLC	Basketball Club Batumi – 2010
429323314	LLC	Aragvi football club
Small SOEs (mainly inactive) for which data were not available:		
245626835	LLC	Shopping Center 2009
211360944	LLC	Palace of Sports
245400775	LLC	Batumi Oil Refinery
205221614	LLC	Demeter 96
400031559	LLC	Auto parking 2011
237978550	LLC	Square 2009
223353387	LLC	Sanitation of Akhalkalaki
224618313	LLC	Tushuri sheep breed
404401615	LLC	Ilia's Garden
204961121	LLC	GCI Service
201953378	LLC	Saxexpertise
215109932	LLC	Resident 2000
245629388	LLC	Goderdzi Resorts
404928174	LLC	Food Production Company
211358207	JSC	Business center agro installation
404897484	LLC	Tbilisi Logistics Center
404515468	LLC	Startup Georgia
238725947	JSC	Samtredia 2002
420424589	LLC	ZugdidiGroservis
245427783	LLC	The newspaper is Adjara and Adjara
201990701	LLC	Food product
220341324	LLC	Infrastructure Development Company
400051199	JSC	Georgian Film Development Center
226574098	JSC	Theco
242262056	LLC	Kevri
239395622	JSC	Sachkhere Production Plant

212705517	JSC	Rioni
236686528	LLC	Ninotsminda district
234160109	JSC	Marble
240388228	LLC	Tsnori Machine-Building Factory-2003
204892189	JSC	Sacramento
211328589	LLC	Builder-Technic
236041341	LLC	Juniors
242729286	JSC	Jvari oil product
219617859	JSC	Tkibuli oil product
244548110	JSC	Khobi Oil Product
212705045	LLC	Chance Oil
215083610	LLC	Rosebud
203852713	JSC	Gudauri
236061364	LLC	The chases
249250313	LLC	The airline is Abawi
201947572	JSC	Agroinvest
206222942	LLC	Sakgeoservice
203822827	LLC	Georgian market
225377641	LLC	Bolnisi -2000
203860330	JSC	Tung of Georgia and essential oil
204396563	LLC	Geo-Tech
204983143	LLC	Logos
212814953	LLC	Building materials
420005256	LLC	Anaklia 2018
405205601	LLC	Lycan residence
205017621	LLC	Special Cap Service
206337677	LLC	Comes after the Lyceum
206285081	LLC	Tam – Polymer
206274501	LLC	Tam-energy
400004650	LLC	Sakpressa + "
212677673	LLC	Kutaisi Press House
236049904	LLC	Tetnuldi Development
219984952	LLC	Zugdidi Preventive Disinfection Unit
415081084	LLC	Poti Free Economic Zone Utility Management
206107540	LLC	Technical Specialist Training Center
202054196	JSC	Georgian film
245400748	LLC	Georgia Maritime shipping
206337748	LLC	National Warehouse Sales Service
239862966	LLC	Georgian traditions
404908007	LLC	Georgian Greenhouse Company
203850092	LLC	Sakcoopservices
225393197	LLC	Bolnisi agro market
426109052	LLC	Jiar Borjomi-Bakuriani
404951691	LLC	Georgian Fruit and Vegetable Export Company
404957597	LLC	Product of Georgia

Source: MoF, IMF

Annex II. Impact of Sectorization on Fiscal Aggregates

Impact of sectorization exercise on Fiscal Reporting of Related Entities' Transactions

	Pre sectorization (GEL b)				Post Sectorization (GEL b)				Change (GEL b)			
	GG	SOE	Consol	Public Sector	GG	SOE	Consol	Public Sector	GG	SOE	Consol	Public Sector
Revenue	0	1.193	-0.329	0.864	0.864	0	0	0.864	0.864	-1.193	0.329	0
Commercial		0.864			0.864				0.864	-0.864	0	0
Subsidies/grants		0.203							0	-0.203	0	0
Capital injections		0.126										
Expenditure	0.329	1.299	-0.329	1.2992	1.2992	0	0	1.2992	0.9702	-1.2992	0.329	0
Operating		1.135			1.135				1.135	-1.135	0	0
Capex		0.164			0.1642				0.1642	-0.1642	0	0
Subsidies/grants	0.203				0		0		-0.203	0	0	0
Capital injections	0.126				0				-0.126	0	0	0
Balance	-0.329	-0.106	0	-0.4352	-0.4352	0	0	-0.4352	-0.1062	0.1062	0	0
Debt	0	1.307	-0.8	0.507	0.507			0.507	0.507	-1.307	0.8	0
On lending		0.8			0				0	-0.8	0	0
Commercial		0.507			0.507				0.507	-0.507	0	0

	Pre sectorization (percent of GDP)				Post Sectorization (Per cent of GDP)				Change (percent of GDP)			
	GG	SOE	Consol	Public Sector	GG	SOE	Consol	Public Sector	GG	SOE	Consol	Public Sector
Revenue	0.0	2.9	-0.8	2.1	2.1	0.0	0.0	2.1	2.1	-2.9	0.8	0.0
Commercial		2.1			2.1				2.1	-2.1		0.0
Subsidies/grants		0.5							0.0	-0.5		0.0
Capital injections		0.3										
Expenditure	0.8	3.2	-0.8	3.2	3.2	0.0		3.2	2.4	-3.2	0.8	0.0
Operating	0.0	2.8			2.8				2.8	-2.8		0.0
Capex	0.0	0.4			0.4				0.4	-0.4		0.0
Subsidies/grants	0.5	0.0					0.0		-0.5	0.0		0.0
Capital injections	0.3								-0.3	0.0		0.0
Balance	-0.8	-0.26	0.0	-1.1	-1.1	0.0	0.0	-1.1	-0.3	0.3	0.0	0.0
Debt	0.0	3.2	-1.9	1.2	1.2			1.2	1.2	-3.2		0.0
On lending		1.9			0.0				0.0	-1.9		0.0
Commercial		1.2			1.2				1.2	-1.2		0.0

Source: IMF staff estimates

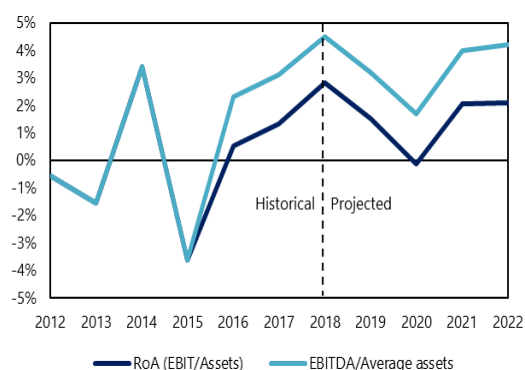
Annex III. SOE Financial Summaries

Engurhesi, LLC

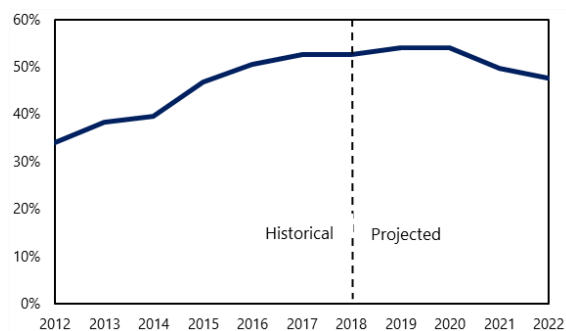
Lines of Business

- Engurhesi owns and operates the 1,300MW Enguri dam, water reservoir and generation facilities. It accounts for around 40 percent of the country's electricity generation.

ROA and EBITDA/Assets 2012–22



Leverage (D/(D+E)) 2012–22



Source: Company financial statements, IMF staff estimates

Recent Financial Performance

- The company experienced revenue growth of around 30 percent in 2018 due to strong hydrological inflows and a tariff increase. EBITDA and EBIT grew and NPAT in 2018 was positive for the first time in the last four years. The company's RoA improved but remains low at around 2.8 percent. Leverage has increased from 34 percent to over 50 percent over the last six years, mainly due to exchange rate movements.

Projected Financial Performance

- Revenue in 2019 is projected to decline mainly due to rising Georgian and Abkharzian consumption crowding out foreign sales. Abkhazia, which does not pay for the electricity as a trade-off for the company's ability to operate its generation and other facilities that are located in the territory controlled by the Abkhazian administration, takes 100 percent of the company's output during the peak winter months and around 40 percent across the year as a whole. The company will also be adversely affected by a 3-month shutdown in Feb-May 2020 to rehabilitate its tunnel, but this investment is necessary to sustain output. The company is planning to raise new foreign currency loans of around GEL60m over 2019 and 2020 to finance its investment activities.

Major Financial Risks

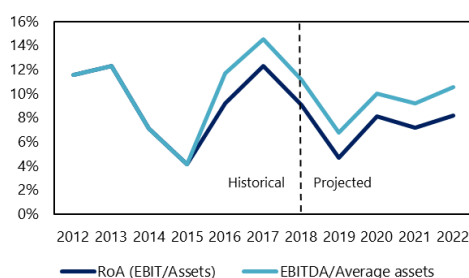
- The major financial risks facing the company include:
 - consumption in Abkhazia continuing to rise, crowding out revenue-generating sales; and
 - forex risks, with the company's debt all in foreign currency and the company's exposure increasing with the loss of \$US revenue and increasing debt. A 30 percent depreciation in the Lari would increase the company's finance costs by around GEL53m.
- There is upside risk to the company's asset values which are well below market value but a revaluation of the assets would lead to higher prices. In line with the commitment to the EU on QFAs, and the logic of the electricity market deregulation, Engurhesi should receive market prices for its output or be compensated explicitly for QFAs.

Georgian Oil and Gas Corporation, JSC

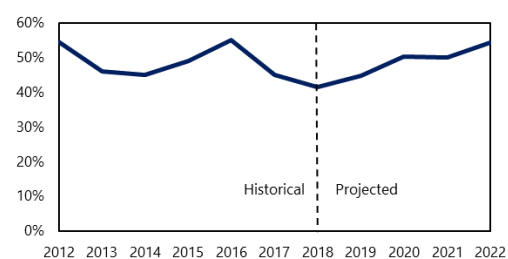
Lines of Business

- Traditionally, the main business of Georgian Oil and Gas Corporation (GOGC) was the purchase and sale of gas from Azerbaijan via a government-to-government agreement. GOGC receives revenues from the transit of gas from Azerbaijan to Turkey and from the supply of gas (at subsidized prices) to the social sector. In recent years electricity generation has become a major business activity, with the 230MW CCGT (combined cycle gas turbine) Gardabani 1 built in 2015 and a second (Gardabani 2) scheduled to be in operation at the end of 2019. A third unit is planned for around 2023. 60 to 70 percent of the company's EBITDA now comes from electricity generation and the company accounts for around 15 percent of the country's generation.

ROA and EBITDA/Assets 2012–22



Leverage (D/(D+E)) 2012–22



Source: Company financial statements, IMF staff estimates

Recent Financial Performance

- Despite a decline in revenue in 2018, GOGC recorded a strong RoA and RoE of 9 percent and 16 percent respectively. The company paid a dividend of GEL71m in 2018. Strong operating cash flows contributed to a reduction in the company's leverage to 41 percent.

Projected Financial Performance

- The company is projecting large increases in revenue as the two new CCGT plants come on stream. At the same time the company's financing requirements are large as total assets are projected to double between 2018 and 2022. As well as the two thermal stations, finance is needed for a planned underground gas storage facility. Gross financing requirements of the company over the next three years are projected to total around GEL1,600m.

Major Financial Risks

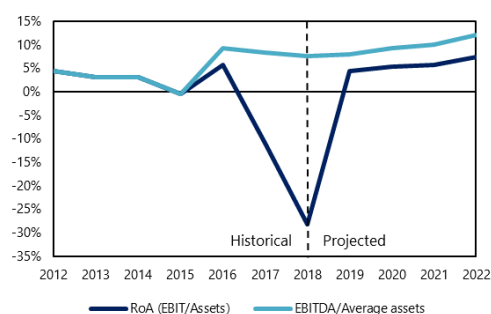
- The major financial risks facing the company include:
 - forex risks, while the company has a natural hedge with around 93 percent of its revenues and 87 percent of its operating costs in \$US, all the company's debt is in foreign currency. A 30 percent depreciation in the Lari would reduce the company's NPAT by around GEL148m; and
 - political pressures on the company to keep its natural gas prices down to the social sector.

Georgian Railway, JSC

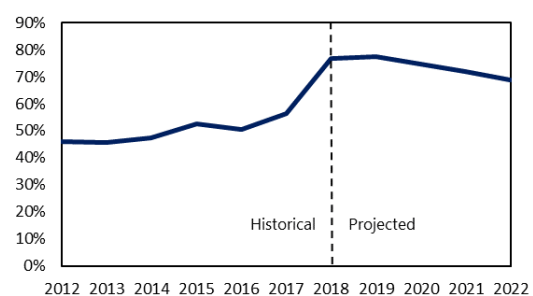
Lines of Business

- Georgian Railway (GR) owns and operates the railway network in Georgia. The company's main assets are land, rail, rolling stock and a truck fleet. The company also has a logistics terminal and freight-forwarding business. 95 percent of its revenue is generated by the freight business, with passenger transport a small and loss-making business. The company is not price regulated. Approximately 60 percent of the freight is international transit freight.

ROA and EBITDA/Assets 2012–22



Leverage (D/(D+E)) 2012–22



Source: Company financial statements, IMF staff estimates

Recent Financial Performance

- In recent years, freight volumes have declined by around 50 percent, with oil and gas transport switching to pipelines. In 2018, GR's fixed assets were written down by GEL691m to reflect the reduced traffic volumes. This write-down followed an impairment the previous year

when the GEL400m Tbilisi bypass project was almost fully written off following the decision by the then newly elected government to abandon the project.

- 2019 year-to-date revenue is above budget, with increasing volumes of higher margin cargo and the depreciation of the Lari (the company's revenue is largely in \$US). However, with all its debt in foreign currency, GR's finance costs are up and overall NPAT is likely to be down on budget.
- As a result of the asset write-downs and exchange rate depreciations, the company's balance sheet has weakened considerably, with its D/(D+E) ratio increasing to 77 percent.

Projected Financial Performance

- The company is expecting to return to moderate profitability from 2020, with RoA around 5 percent. The projected value of total assets in 2022 (at GEL2,000m) is around 2/3rd the value of total assets in 2016. With leverage projected to remain above 60 percent, even excluding the impact of MKR, the company may well require government support to be able to refinance its USD500m Eurobond that is due to mature in 2022.

Major Financial Risks

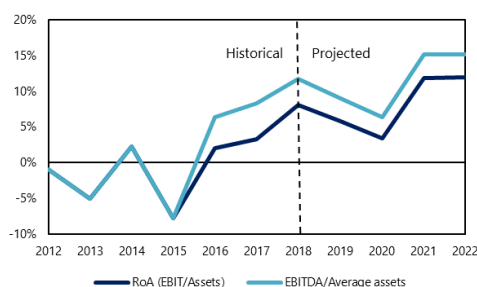
- The major financial risks facing the company include:
 - re-financing risk. The company advises its Eurobond covenants are not at risk at this stage but unless bondholders see some government support, they are likely to require higher interest rates;
 - labor market unrest: The company has 12,600 employees, the same number as in 2012 when it carried twice as much volume; and
 - assuming 50 percent of MKR's liabilities and assets on its balance sheet.

Georgian State Electrosystem, JSC

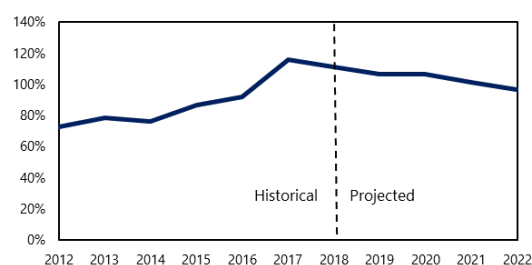
Lines of Business

- Georgian State Electrosystem (GSE) provides electricity transmission and dispatch services. The company's revenue has increased from GEL67m in 2012 to GEL237m in 2018. The company is investing in a range of new projects to improve security of supply and to increase capacity (e.g., new interconnect lines with Turkey and with Armenia). It is planned that GSE will fully merge with its subsidiary Energotrans later this year and also take over the Georgian assets of a 50/50 Georgian-Russian transmission JV so that GSE becomes the single transmission company in Georgia.

ROA and EBITDA/Assets 2012-2022



Leverage (D/(D+E)) 2012 - 2022



Source: Company financial statements, IMF staff estimates

Recent Financial Performance

- In 2018 GSE recorded NPAT of GEL44m, the first positive return in four years. Revenue increased by 60 percent as a project completed in 2017 was included in the regulatory asset base. GSE's net worth remains negative, reflecting the effects of the 2015 depreciation and an approx. GEL250m write-down of the fixed assets of its subsidiary, Ergotrans in 2017 (this may be reversed in 2021). The authorities are working on a plan to make GSE a financially stand-alone entity, possibly by conversing Government loans to equity and then issuance of bonds in the market. GSE is working with the National Bank of Georgia and the Pension Fund to convert its loans to Lari.

Projected Financial Performance

- GSE's 2019 budget projects positive EBITDA but the depreciation of the Lari this year (unless reversed) will turn NPAT into another loss. Every 8 percent depreciation in the Lari results in a GEL20m increase in GSE's financing costs.
- GSE's balance sheet is projected to double in size over the next four years, to around GEL2,200m as a result of major new investments. GSE has substantial financing requirements over the next few years, as approximately GEL800m of funding is required to finance its investment program and a restructuring of its finances will be required to achieve a sustainable financial position. The profitability of the company is expected to improve markedly from 2021 as revenue increases, assuming the tariff reset in 2020 goes ahead.

Major Financial Risks

- The major financial risks facing the company include:
 - forex risks, with all its loans in foreign currency, a 30 percent depreciation of the GEL would increase its financing costs by around GEL472m;
 - volume risks, with flows on the network not meeting forecast growth; and

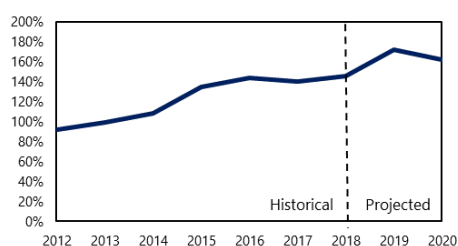
- regulatory risks, especially if its planned tariff increases are rejected by the independent regulator.

Marabda-Katsakhi Rail, LLC

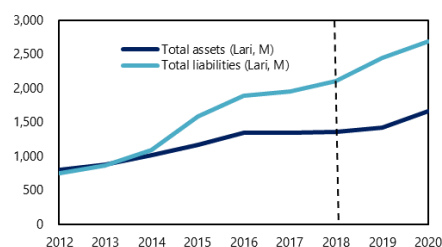
Lines of Business

- Marabda-Katsakhi Rail (MKR) is responsible for constructing a railway line and associated terminals from Marabda to Katsakhi. The line will be 200km long and provide a superior rail between link Azerbaijan and Turkey. The line is projected to be complete by the end of 2020.
- The total cost of the project is budgeted to be US\$775m. The company expects the project to be completed on budget even though when construction commenced in 2011 it was expected to be finished by 2013. Initial trials indicate the quality of lines is not satisfactory, with trains having to operate at reduced speeds and no flammable or passenger freight permitted.

Leverage (D/(D+E)) 2012–20



Total Assets and total liabilities 2012–20



Source: Company financial statements, IMF staff estimates

Recent Financial Performance

- The company has accumulated losses of GEL750m at the end of 2018, reflecting the impact of the depreciation of the Lari on its foreign-currency denominated debt of over GEL2,000L and the effects of capitalization of interest from the lengthy delays in the project. With total assets (valued at cost) of GEL1,350m, the company has negative net worth of around GEL560m. The agreement between the governments of Azerbaijan and Georgia pursuant to which the company was established provide that this debt, which is to the Ministry of Transport of Azerbaijan, will be serviced only from the free cash flow of the project once the railway becomes operational after the construction phase has been completed.

Projected Financial Performance

- At completion of the construction of the project a 50/50 Azerbaijan Railways/Georgian Railways JV is planned to take over the assets and liabilities of the company. Any such asset transfer is likely to be accompanied by a major write-down of the assets. The Georgian government has not guaranteed the liabilities of the company.

Major Financial Risks

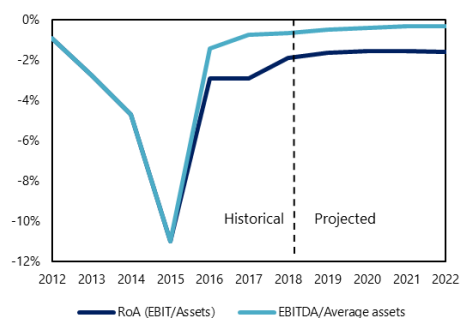
- The company faces a major asset write-down risk as freight volumes and revenues are unlikely to justify the construction-cost based value of the assets. The company also faces major forex risk, with all its debt denominated in foreign currency, although this risk could be partially hedged in the future if revenues are forex denominated. The company also faces construction and operational risk (as noted above).

United Water Supply Company of Georgia, LLC

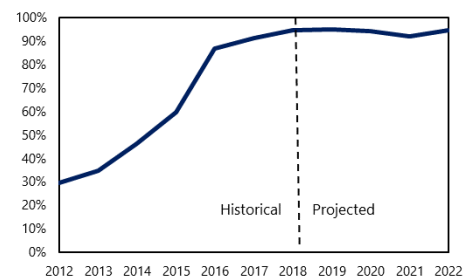
Lines of Business

- United Water Supply (UWS) provides drinking water and wastewater services in parts of the country outside Tbilisi. Approximately 40 percent of the company's 335,000 customers are unmetered, paying a fixed rate based on the number of people in the household. The company has high water losses (of up to 75 percent) due to the poor condition of many of its assets. Government policy restricts water tariffs to no more than 4 percent of household income, and UWS's current tariffs are often a lot lower, despite its costs to serve being higher, especially in rural areas.

ROA and EBITDA/Assets 2012–22



Leverage (D/(D+E)) 2012–22



Source: Company financial statements, IMF staff estimates

Recent Financial Performance

- UWS made an operating loss of GEL8m in 2018, with NPAT negative GEL79m. Despite receiving a subsidy for its capex from the government, the company is close to bankruptcy with debt/(debt + equity) of 94 percent and a negative interest coverage ratio.
- The company recorded impairments in 2017 and 2018, and restated its accounts for the previous two years, with its fixed assets being written down by around GEL200m. The company has received regular equity injections in the past from the government to keep it afloat.

Projected Financial Performance

- The company is projecting continuing operating losses and NPAT deficits in each of the next five years. Despite this the company is planning to invest in new treatment plants and pipes financed by loans (through the ADB via the government) and further equity injections.

Major Financial Risks

- The major financial risks facing the company include:
- forex risks, with all its loans in foreign currency, a 30 percent depreciation of the GEL would increase its financing costs by around GEL410m;
- political risks, especially of its planned tariff increases in 2019 and 2020 being postponed;
- construction risks from delays and cost overruns in its construction projects; and
- impairment risks, with the possibility of its fixed assets being further written down when they are due to be valued next in 2023.

Financial Metrics for the SOEs

Engurhesi Financial Metrics	2012	2013	2014	2015	2016	2017	2018	Projected			
								2019	2020	2021	2022
Revenue (Lari, M)	40	42	61	47	31	32	42	35	28	36	36
EBITDA (Lari, M)	-2	-5	11	-13	8	11	17	12	6	13	13
Total assets (Lari, M)	292	306	330	349	350	357	358	390	357	328	318
Net worth (Lari, M)	164	193	189	200	186	168	169	170	179	164	165
RoA (EBIT/Assets)	-0.6%	-1.6%	3.4%	-3.6%	0.5%	1.3%	2.8%	1.5%	-0.1%	2.0%	2.1%
RoE (NPAT/Equity)	-1.5%	-3.5%	5.7%	-7%	-4%	-6%	3%	2%	-10%	1%	1%
EBITDA/Average assets	-0.6%	-1.6%	3.4%	-3.6%	2.3%	3.1%	4.5%	3.2%	1.7%	4.0%	4.2%
Capital structure (D/(D+E))	34%	38%	39%	47%	50%	53%	53%	54%	54%	50%	48%
Liquidity (EBITDA/interest)	n/a	n/a	n/a	n/a	4.4	4.5	7.2	5.8	0.4	3.0	3.0

Georgian Oil and Gas Corp Financial Metr	2012	2013	2014	2015	2016	2017	2018	Projected			
								2019	2020	2021	2022
Revenue (Lari, M)	340	380	372	529	635	680	626	696	1,066	1,059	1,098
EBITDA (Lari, M)	111	141	94	62	189	243	201	144	247	264	360
Total assets (Lari, M)	878	1,055	1,231	1,404	1,581	1,660	1,693	1,903	2,349	2,570	3,142
Net worth (Lari, M)	358	399	569	676	715	712	913	992	1,051	1,169	1,283
RoA (EBIT/Assets)	11.5%	12.3%	7.1%	4.2%	9.2%	12.3%	9.1%	4.7%	8.1%	7.2%	8.2%
RoE (NPAT/Equity)	16.7%	15.1%	12.1%	5%	10%	23%	16%	8%	12%	10%	14%
EBITDA/Average assets	11.5%	12.3%	7.1%	4.2%	11.7%	14.5%	11.2%	6.8%	10.0%	9.2%	10.6%
Capital structure (D/(D+E))	55%	46%	45%	49%	55%	45%	41%	45%	50%	50%	54%
Liquidity (EBITDA/interest)	n/a	n/a	n/a	n/a	-12.0	-34.8	-10.8	9.2	5.0	4.1	4.9

Georgia Rail Financial Metric:	2012	2013	2014	2015	2016	2017	2018	Projected			
								2019	2020	2021	2022
Revenue (Lari, M)	521	508	536	626	539	474	444	472	511	527	576
EBITDA (Lari, M)	125	90	90	-17	282	212	172	178	196	201	235
Total assets (Lari, M)	2,832	2,885	2,968	3,094	3,226	2,862	2,264	2,313	2,186	2,044	1,985
Net worth (Lari, M)	1,802	1,531	1,569	1,563	1,471	1,599	1,245	529	522	552	577
RoA (EBIT/Assets)	4.4%	3.1%	3.0%	-0.5%	5.8%	-10.9%	-28.2%	4.4%	5.3%	5.6%	7.4%
RoE (NPAT/Equity)	6.3%	4.2%	2.6%	-4%	5%	-40%	-136%	-1%	8%	6%	11%
EBITDA/Average assets	4.4%	3.1%	3.0%	-0.5%	9.3%	8.3%	7.5%	7.9%	9.3%	10.0%	12.1%
Capital structure (D/(D+E))	46%	46%	47%	52%	50%	57%	77%	77%	75%	72%	69%
Liquidity (EBITDA/interest)	n/a	n/a	n/a	n/a	7.6	2.2	5.2	4.2	3.0	2.7	3.2

GSE Financial Metrics	2012	2013	2014	2015	2016	2017	2018	Projected			
								2019	2020	2021	2022
Revenue (Lari, M)	67	79	125	117	136	148	237	209	175	375	384
EBITDA (Lari, M)	-10	-53	25	-94	76	92	152	144	122	323	334
Total assets (Lari, M)	1,024	1,023	1,078	1,144	1,277	1,107	1,132	1,467	1,757	2,062	2,195
Net worth (Lari, M)	293	282	220	260	153	105	-176	-126	-93	-117	-23
RoA (EBIT/Assets)	-1.0%	-5.0%	2.2%	-7.8%	2.0%	3.2%	8.1%	5.8%	3.4%	11.9%	12.0%
RoE (NPAT/Equity)	-4.3%	-26.3%	1.9%	-88%	nmf	nmf	nmf	nmf	nmf	604%	121%
EBITDA/Average assets	-1.0%	-5.0%	2.2%	-7.8%	6.3%	8.2%	11.7%	8.9%	6.4%	15.2%	15.2%
Capital structure (D/(D+E))	72%	79%	76%	87%	92%	116%	111%	106%	107%	101%	97%
Liquidity (EBITDA/interest)	n/a	n/a	n/a	n/a	3.3	0.9	2.6	5.9	1.4	3.0	2.8

Marabda-Kartsakhi Railway Financial Metrics	2012	2013	2014	2015	2016	2017	2018	Projected			
								2019	2020	2021	
Revenue (Lari, M)			3	0	9	0	0	0	0	0	0
EBITDA (Lari, M)			-6	-49	-83	-326	-5	-6	-7	-6	-8
Total assets (Lari, M)			806	870	1,010	1,170	1,348	1,348	1,352	1,418	1,659
Total liabilities (Lari, M)			746	862	1,092	1,584	1,892	1,946	2108	2441	2689
Net worth (Lari, M)			0	60	8	-82	-414	-579	-565	-668	-1022
Capital structure (D/(D+E))			93%	99%	108%	135%	144%	141%	146%	172%	162%

United Water Supply Financial Metrics	2012	2013	2014	2015	2016	2017	2018	Projected			
								2019	2020	2021	2022
Revenue (Lari, M)	42	46	33	31	33	37	40	41	43	44	44
EBITDA (Lari, M)	-4	-14	-28	-78	-12	-7	-8	-7	-6	-6	-6
Total assets (Lari, M)	406	455	553	636	783	914	1,045	1,348	1,506	1,808	1,782
Net worth (Lari, M)	255	285	296	297	256	104	81	54	67	87	143
RoA (EBIT/Assets)	-0.9%	-2.7%	-4.7%	-11.0%	-2.9%	-2.9%	-1.9%	-1.6%	-1.5%	-1.6%	-1.6%
RoE (NPAT/Equity)	-1.8%	-4.6%	-10.1%	-43%	-66%	-103%	-130%	-39%	-57%	-39%	-73%
EBITDA/Average assets	-0.9%	-2.7%	-4.7%	-11.0%	-1.4%	-0.7%	-0.6%	-0.5%	-0.4%	-0.3%	-0.3%
Capital structure (D/(D+E))	30%	35%	46%	60%	87%	91%	95%	95%	94%	92%	95%
Liquidity (EBITDA/interest)	n/a	n/a	n/a	n/a	-17.5	-24.2	-14.0	-0.9	-0.1	-0.2	-0.2

Source: Company financial statements, IMF staff estimates